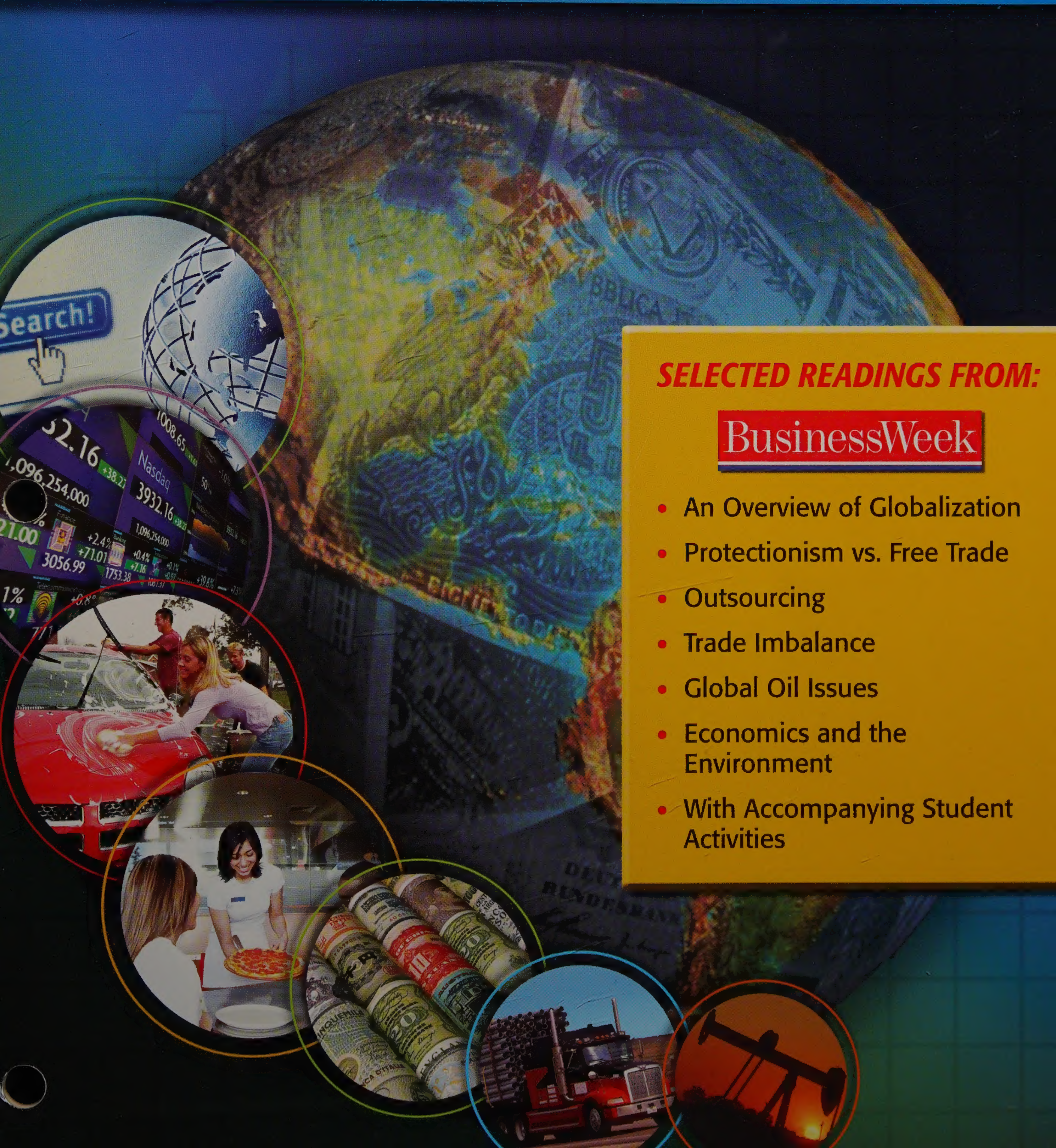
Focus on the Global Economy



SELECTED READINGS FROM:

BusinessWeek

- An Overview of Globalization
- Protectionism vs. Free Trade
- Outsourcing
- Trade Imbalance
- Global Oil Issues
- Economics and the Environment
- With Accompanying Student Activities

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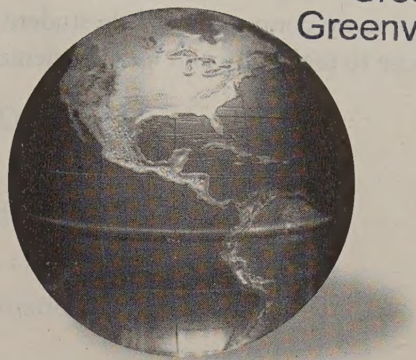

FOCUS ON THE GLOBAL ECONOMY

With selected readings from

BusinessWeek

McGraw-Hill Glencoe

New York, New York   Columbus, Ohio   Chicago, Illinois   Woodland Hills, California

To the Teacher

Glencoe provides this booklet as a tool to help your students understand the far-reaching implications of the "Global Economy." Excerpted readings from *Business Week* magazine and follow-up activities help your students comprehend the significance of the Global Economy in the world and in their daily lives.

Focus on the Global Economy is divided into 6 Topics that trace economic changes as the world's economy has grown more and more connected. While students may benefit most from studying all 6 units consecutively, you may choose to teach any unit as a supplement to correlating material in your economics text.

Mc Graw Hill Glencoe

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Printed in the United States of America.

Send all inquiries to:
Glencoe/McGraw-Hill
8787 Orion Place
Columbus, OH 43240

ISBN: 978-0-07-878057-8
MHID: 0-07-878057-8

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An Overview of Globalization

FOCUS TOPIC 1

READING 1

Excerpted from Business Week, *July 21, 2006*

New Global Marketplace Meets U.S. Needs

Harold Sirkin

Back in the 1960s and 1970s, plenty of Japanese and South Korean companies were either largely unknown or completely dismissed by their Western competitors. Big mistake: Toyota and Honda are today world leaders in auto manufacturing, while Samsung Electronics and LG are highly competitive global players in consumer electronics.

The next wave of corporate success stories is going to come from a number of largely unheard of Brazilian, Chinese, Indian, Malaysian, Thai, and Turkish companies. Their competitive edge is no secret: they are delivering low-cost, high-quality products and services. In fact, many companies from these rapidly developing economies (RDEs) have already arrived. Some of these operate below the radar screen, largely because they manufacture for other companies that put their own brand names on the products.

China's Guangdong Galanz Enterprises, for example, now commands a 45% share of the microwave oven market in Europe and has a 25% percent hold on the U.S. market. While U.S. consumers can purchase Galanz products online, they can't go to their local home appliance store and find the Galanz brand name. If they want a Galanz oven, they'll have to look for Sylvania or another company that sources its production from the Chinese partner.

Other emerging market companies with big ambitions are far more visible. These are buying Western companies, building manufacturing plants and distribution networks in Europe, Japan, and the U.S., and are developing premium products.

Walk into any Best Buy store in the U.S. and you'll find washing machines, dryers, and small refrigerators from China's Haier home appliance company. Walk across the street to Circuit City, and you'll find Haier microwave ovens. . . .

There are plenty of other examples out there of new emerging market companies making their presence felt. Mexico's $15.3 billion-a-year building materials group, CEMEX, is already the largest cement producer in North America . . . India's Ranbaxy Pharmaceuticals is among the top 10 generic pharmaceutical firms in the world.

These are some of the headline grabbers. But behind the scenes are hundreds of other companies ready to challenge the status quo. . . .

U.S., Japanese, and Europeans ought to take these emerging players seriously. It is true that Western companies enjoy certain advantages, such as brand identity and loyalty, patent and trademark protections, long-standing

What's Next for India's Tech Industries

SOFTWARE AND SERVICES	
REVENUES **$22 Billion** FISCAL 2005	FORECAST **$148 Billion** 2012
PHARMA	
REVENUES **$5.2 Billion** 2004	FORECAST **$25 Billion** 2010

Data: Nasscom, McKinsey & Co., OPPI

traditions of innovation, and established distribution channels. However, most of the challengers are cash rich and they're ready to exploit advantages of their own. Consider the following benefits:

COST EDGE: As anybody who has followed the globalization story already knows, labor costs in rapidly developing economies are typically 80% to 90% less than comparable costs in the West. . . . Construction and equipment costs, and in many cases even raw materials, also are significantly less expensive in the RDEs than in the West.

MODERN AND EFFICIENT PLANTS AND EQUIPMENT: Recent, rapid growth in the RDEs means they have newer plants and equipment. . . .

ACCESS TO HUGE TALENT POOLS: By 2010, China and India combined will graduate 12 times the number of engineers, mathematicians, scientists, and technicians as the U.S.

THE RIGHT PRODUCTS FOR THE TIMES: . . . As their quality has improved, the low-cost consumer products produced by RDE manufacturers are uniquely suited to meet [consumers'] needs . . .

Questions For Review

Checking for Understanding

1. Why is it easy to overlook some of the emerging market companies?
2. What competitive advantages do Western companies have?
3. What competitive advantages do companies in rapidly developing economies have?

Critical Thinking

4. **Making Comparisons** Compare the situation of many Japanese and South Korean companies in the 1960s and 1970s to the situation of companies in rapidly developing economies today.
5. **Synthesizing Information** What do you think U.S., European, and Japanese companies need to do to remain competitive?

Reading 2

Excerpted from Business Week, *February 28, 2003*

Globalization: Bad Rap, Rich Rewards?

Mark L. Clifford

The poor shall always be with us, cautions the Bible. Maybe not, argues Indian economist and former World Bank staffer Surjit S. Bhalla in a provocative new book, Imagine *There's No Country: Poverty, Inequality and Growth in the Era of Globalization*. . . . [T]he book is a must-read for anyone seriously interested in the debate about whether globalization is good for the poor—or if the collapsing of borders has added to the misery of those at the bottom of the economic heap while enriching the relatively well-to-do.

Antiglobalization advocates claim that the free-market, proglobalization policies of the past

two decades have made the world worse for the poor. Even the World Bank has joined in the fray, professing concern that the number of people in poverty has fallen only slowly.

Look again, urges Bhalla. He contends that the past 20 years have been a time of "fantastic" opportunity for the world's poorest people. Poverty has fallen at the fastest rate in history. Average annual growth in developing countries has been almost double that of the industrialized world—3.1% vs. 1.6%. For each 10% rise in consumption by the nonpoor, consumption by poor people rose 18%.

Indeed, Bhalla convincingly shows that the global target of cutting the ranks of the world's poor—those living on $1 a day or less—to 15% by 2015 has already been reached. Writes Bhalla: "The globalization period has been the golden age of development."

At the same time, and very much contrary to conventional wisdom, global inequality has also fallen sharply. By 2000, Bhalla says global inequality was at its lowest level in 50 years. By the end of this decade it's likely to be the same as that of a century ago.

It's not all a rosy picture. The number of poor in Africa has risen sharply, offsetting some gains in Asia. Bhalla doesn't think the world should ignore places that have fallen behind. Indeed, he wants to ratchet up the definition of poverty from $1 a day to $2 and put more focus on the people who are truly poor. But he doesn't want to tinker with a globalization formula that demonstrably works.

The big gains in poverty reduction have come in China and India. That makes sense, because they're the world's two most populous countries. But both, on the surface, pursued quite different policies. India has pursued a slower, more democratic path. China has followed a top-down, authoritarian model. But both have moved dramatically toward more market-based economies.

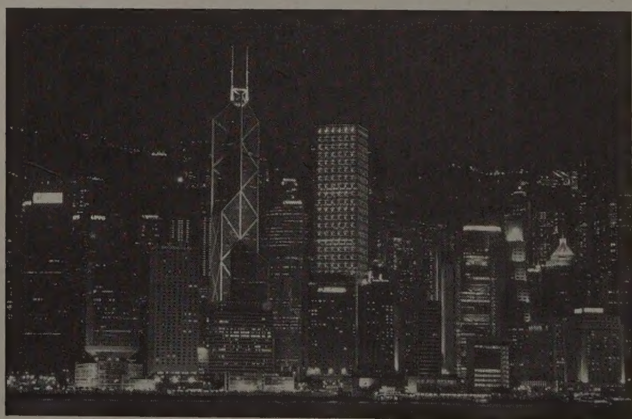
To get his results, Bhalla used the same data as the World Bank but sliced it in radically detailed ways. . . .

In a nutshell, he contends that the World Bank has mishandled the data. It has mixed survey data with overall national-accounts, sort of like trying to give the same value to potatoes and oysters. And it has used what Bhalla attacks as an untested and unverifiable version of the Purchasing Power Parity index, which aims to smooth out differences in development levels and exchange rates. Bhalla also contends that the World Bank is moving toward less-reliable survey data.

The results are startling. Bhalla's data may have some hole that isn't obvious, but if he's right, his argument has significant implications. His findings are certainly worth debating.

The most important implication, if Bhalla is right, is that the pro-market policies of the last 20 years are working just fine. It's

Source: Malcolm Linton/Liason/Getty Images



Some areas in Nigeria have been polluted by globalism, but in parts of China, the economy has prospered.

an illusion to look for policies that will be more pro-poor, because no formula in history has ever been more pro-poor. In essence, he's saying the search for an elusive Third Way of global development that lifts all the fortunes of the poor can be abandoned because it has already been found.

Questions For Review

Checking for Understanding

1. Where does Bhalla get the data for his analysis?
2. What does the World Bank's analysis conclude about the effect of globalization on world poverty?
3. What reasons does Bhalla give to support his claim that the World Bank's analysis is wrong?

Critical Thinking

4. **Summarizing Information** Write a one-sentence summary of Bhalla's conclusion.
5. **Evaluating Information** Do you think Bhalla's ideas are likely to be controversial? Why or why not?

Reading 3

Excerpted from Business Week, April 24, 2000

Backlash: Behind the Anxiety over Globalization

Aaron Bernstein

Ask David K. Hayes about the impact of globalization on his life and you'll hear the story of a painful roller-coaster ride. The Goodyear Tire & Rubber Co. factory in Gadsden, Ala., where he has worked for 24 years, decided to shift most of its tiremaking to low-wage Mexico and Brazil early last year. The plant slashed its workforce from 1,850 to 628. The 44-year-old father of two was lucky and landed a job paying the same $36,000 salary at another Goodyear plant 300 miles away. Hayes's wife didn't want to quit her $30,000-a-year nursing job, so Hayes rented a small apartment in Union City, Tenn., seeing his family on weekends. Then in October, Goodyear reversed course and rehired nearly 700 people in Gadsden, including Hayes. It's good to be home, he says, but he is constantly fearful that the company will switch again. . . .

Such stories of anxiety are part of what's fueling a second wave of protests against globalization that kicked off in Washington, D.C., on Apr. 9. Echoing the demonstrations that erupted late last year at the World Trade Organization (WTO) meeting in

Seattle, the AFL-CIO brought some 15,000 members to Capitol Hill on Apr. 12 to lobby against granting Normal Trade Relations Status to China. Environmental and human-rights protesters planned to disrupt meetings of the World Bank and the International Monetary Fund (IMF) four days later.

The outpouring once again raises the question: Why are so many people so angry about globalization . . . ?

After all, the U.S. economy is in the midst of a heady boom that's being fueled in no small part by globalization. Open borders have allowed new ideas and technology to flow freely around the globe, fueling productivity growth and helping U.S. companies to become more competitive than they have been in decades. Expanded trade has helped to keep a tight lid on U.S. consumer prices, too. As a result, many U.S. families are doing better than ever. What's more, polls have shown for years that a solid majority of Americans believe that open borders and free trade are good for the economy.

So is the hostility aired in Seattle and now in Washington just the raving of fringe groups? Or does it express a more widespread anxiety that decision-makers have ignored until now? Fringe groups do play a role, but there is mounting evidence for the second conclusion, as well. The protesters have tapped into growing fears that U.S. policies benefit big companies instead of average citizens–of America or any other country. Environmentalists argue that elitist trade and economic bodies make undemocratic decisions that undermine national sovereignty on environmental regulation. Unions charge that unfettered trade allows unfair competition from countries that lack labor standards. Human rights and student groups say the IMF and the World Bank prop up regimes that condone sweatshops and pursue policies that bail out foreign leaders at the expense of local economies. . . .

DIVIDED. A BUSINESS WEEK/Harris poll released on Apr. 12 finds that while Americans agree in principle that globalization is good, they disagree with policies for carrying it out. . . .

At the same time, 68% of Americans believe globalization drags down U.S. wages. . . . "A strong majority [of the U.S. public] feels that trade policies haven't adequately addressed the concerns of American workers, international labor standards, or the environment," says Steven Kull, director of the University of Maryland's Center on Policy Attitudes. . . .

Americans' divided views have broad implications for U.S. policies and companies. Ever since the North American Free Trade Agreement (NAFTA) squeaked through Congress in 1993, its opponents have blocked most major trade initiatives. . . . Now protesters hope to thwart the Administration's pledge to extend Normal Trade Relations to China as part of its entry into the WTO. . . .

And there's more to come. College students around the country are holding weekly sit-ins to pressure companies to agree to sweatshop monitoring, and they're scoring surprising victories with Reebok, Nike, and other apparel makers. Unions plan to keep pressing for labor standards that can be incorporated into the world trading system. . . .

Finding common ground among competing constituents will be a nightmare for policymakers and politicians. While it may be possible to redesign procedures at the lending agencies, for example, it's far more complex and controversial to set labor and other standards worldwide. . . .

It's a paradox that while globalization brings big gains at the macroeconomic level, those pluses are often eclipsed in the public eye by all the personal stories of pain felt by the losers. . . .

THREATS. Indeed, there are millions like David Hayes who live in fear of a layoff and whose families share the emotional and financial disruption. . . . [W]orkers who lose a job earn 6% less on average in the new one they land. Others face pressure to take skimpy raises or pay cuts from employers that threaten to move offshore.

Even service and white-collar workers are no longer exempt. . . . [E]ngineers, software writers, and other white-collar employees are seeing jobs migrate overseas. . . .

The point isn't that globalization creates more losers than winners. After all, free trade is a net gain for the country. What worries many is that the U.S. does little to help those who lose out. . . .

SWEATSHOPS? Global competition is also battering the theory of comparative advantage, which holds that free trade will prompt the U.S. to import goods made by low-wage, low-skilled labor and export those made by the highly skilled. But companies are undermining that construct by shifting even the most skilled jobs and technologies to low-wage countries. . . .

Brian and Mary Best are on the losing end of GE's [General Electric's] globalization drive. Both have worked for 25 years as planners at GE's jet-engine plant in Lynn, Mass. . . . In February, Brian was laid off from his $50,000-a-year job, and Mary hopes she's not next. "Our jobs are going to places like Mexico and Poland, where labor is cheaper," says Mary, who has a BA in business administration. Says Brian: "GE's only allegiance is to its shareholders."

Globalization also helps push down U.S. wages. Trade accounts for roughly one-quarter of the rise in U.S. income inequality since the 1970s, studies show. Imports shift demand from low-skilled workers to educated ones. Yet economists have never found a way to measure direct wage pressures from globalization.

Mike Spaulding knows about that pressure. Spaulding, 55, works at Buffalo's Trico Products Corp., a maker of windshield wipers, purchased by Tomkins PLC in 1998. Trico began shifting 2,200 jobs to Mexico in the mid-1980s. Then in 1995, management said the 300 remaining jobs could stay if employees slashed costs. So Spaulding and his colleagues swallowed a $2-an-hour cut, to $12.50, where his pay remains today. "We've had to cut back on our lifestyle–forgo some vacations and going out to dinner," he says. . . .

Some companies use the mere threat of overseas job shifts against workers who try to unionize to raise their pay. . . . According to a 1996 study by Cornell University labor researcher Kate Bronfenbrenner: 62% of manufacturers threaten to close plants during union recruitment drives.

For nearly a decade, political and business leaders have struggled to persuade the American public of the virtues of globalization. But if trade truly brings a net gain to the U.S. economy, why not use some of the extra GDP to compensate the losers and diminish the opposition? True, this wouldn't address wage cuts and threats of moving offshore, much less qualms about the environment and the supranational role of global trade and finance bodies. Still, if the decision makers don't start taking Americans' objections seriously, the cause of free trade could be jeopardized.

Questions For Review

Checking for Understanding

1. Summarize the concerns about globalization expressed by these protest groups: environmentalists, unions, and human-rights activists.
2. What is the "paradox" of globalization?
3. How is global competition undermining the theory of comparative advantage?

Critical Thinking

4. **Determining Cause and Effect** How do you think globalization affects union membership and union power in the U.S.? Explain.
5. **Making Predictions** How do you think continued protests will affect globalization?

ACTIVITIES

Chart Activity

The effects of globalization span all economic levels—global, national, business, and individual. The chart below summarizes some positive and negative effects of globalization. Examine the chart and answer the following questions.

1. What economic level(s) do you think are benefiting most from globalization? Explain.
2. What economic level(s) do you think are suffering most from globalization? Explain.

Research Activities

Independent Practice

Synthesizing Information Select a low-wage country that is receiving a significant amount of outsourced work, such as Mexico, India, China, Bangladesh, Malaysia, or another country of your choice. Research and write a report about the positive and negative effects of outsourcing on that country's economy and its people.

Cooperative Learning

Analyzing Point of View Form five groups. Each group will represent one of these people: a U.S. auto worker, a computer programmer in India, an economist, an engineer in the U.S., or a Mexican worker in a *maquiladora*. Research how globalization might affect the person you represent. Prepare a presentation on globalization from that person's point of view. Include at least one visual to support your main points. Give your presentation to the class. During the presentation, each group member who speaks should speak in character as the person your group represents.

The Pros and Cons of Globalization

Pluses	Minuses
○ Productivity grows more quickly when countries produce goods and services in which they have a comparative advantage. Living standards can go up faster. ○ Global competition and cheap imports keep a lid on prices, so inflation is less likely to derail economic growth. ○ An open economy spurs innovation with fresh ideas from abroad. ○ Export jobs often pay more than other jobs. ○ Unfettered capital flows give the U.S. access to foreign investment and keep interest rates low.	○ Millions of Americans have lost jobs due to imports or production shifts abroad. Most find new jobs—that pay less. ○ Millions of others fear losing their jobs, especially at those companies operating under competitive pressure. ○ Workers face pay-cut demands from employers, which often threaten to export jobs. ○ Service and white-collar jobs are increasingly vulnerable to operations moving offshore. ○ U.S. employees can lose their comparative advantage when companies build advanced factories in low-wage countries, making them as productive as those at home.

Source: Aaron Bernstein, "Backlash: Behind the Anxiety over Globalization," *Business Week* (April 24, 2000).

Protectionism vs. Free Trade

FOCUS TOPIC 2

Reading 4

Excerpted from Business Week, *May 31, 2006*

Walling Off Growth

Chris Farrell

Remember President Ronald Reagan's famous line delivered at the Brandenburg Gate in West Berlin in 1987: "Mr. Gorbachev, tear down this wall!"? Two years later, the Berlin Wall came tumbling down, signaling Communism's collapse. From that moment on, much of the former Soviet Union and most developing nations embraced freer markets. The fall of the wall marked the transition to a truly global economy. . . .

Walls are powerful symbols. That's why it's worrisome to see that the Senate wants to build a 370-mile wall along the U.S.-Mexican border. . . . The problem is, such a wall would represent a backlash against the trend toward more open borders and freer trade. The economic gains of the past two decades—and the policies that were the foundations of those improvements—would be at risk.

A wall physically repudiates [rejects] the 1994 North American Free Trade Agreement. That deal reduced barriers to trade between the U.S., Canada, and Mexico. Despite a number of flaws . . . Mexico largely benefited from NAFTA's tighter economic linkages. . . .

The impact on the U.S. was far more muted, largely because the huge size of the U.S. economy mitigated [lessened] any effect. Instead of spending time debating a wall, why not build on the spirit of NAFTA and seriously negotiate to tear down any remaining barriers to trade on the North American continent?

The symbolism of a wall comes at a tough time for supporters of freer trade—like me. It's no secret that the Doha round of global trade talks is in serious trouble. And here in the U.S., many people are riled up—against illegal immigrants from Mexico, outsourcing IT jobs to India, and intensifying competition for jobs and markets from China, Taiwan, South Korea, Brazil, and Chile, just to name a few things.

With industry after industry facing pressure to cut costs and lower prices, workers are understandably fearful of losing their jobs and incomes. . . .

American workers are right to be frustrated. Sure, the gross domestic product numbers look good. But wages have stagnated for several years. Many defined-benefit pension plans are imploding [collapsing]. The health-care system is a mess, even as premium payments spiral higher and higher.

Problem is, stepping away from open borders won't help solve any of the pressing issues weighing workers down—it will only make them worse. The reason is that strong growth in the modern global economy depends on the creative energies unleashed by the freer flow of ideas, goods, services, and (with some restrictions) people. A vigorous economy provides the economic wealth and the social

Source: Mike Keefe/The Denver Post/CagleCartoons.com

optimism to deal with the underlying problems. Walls, trade barriers, and the like are inimical [unfavorable] to a robust future.

The case for free trade is always difficult. One reason is that decades of economic research document that the benefits are widespread, while the losses are concentrated. What's more, the dirty little secret of most trade calculations is that the gains from more open borders are relatively small. The reason is that in traditional economic theory, the benefits mainly come from greater efficiency and lower prices. You can go to Wal-Mart and buy a cheaper phone than last year, or buy a fuel-efficient car at a reasonable price. That's great, but it doesn't do much to boost growth in the long run.

So how can I say that our economy's health depends on freer trade? When it comes to the economy, what matters is innovation and creativity. Those are the true seeds of higher living standards. Trade invigorates growth by providing access to bigger markets, new ways of doing business, and new path-breaking innovations—whether created in a Silicon Valley garage or an office park in Shanghai. The hundreds of millions of investors that make up the global capital markets seek out those good ideas and business models to fund—and flee—moribund [lifeless] ways of doing business. . . . .

To be sure, although many economists I've talked to in recent weeks find the idea of a wall repugnant, they're more sanguine [optimistic] about the potential economic impact. For instance, Douglas Irwin, an economist at Dartmouth College and a leading expert of the economics of free trade, isn't particularly concerned, "as long as all the trucks hauling Mexican goods north—and U.S. goods south—continue unimpeded," he wrote in an e-mail. . . .

Perhaps they're right. After all, they're the experts. Yet I'm still not reassured. It's a step back from the global economy. Before building a wall, political leaders should reread the memorable lines of Robert Frost's poem, *Mending Wall*.

Before I built a wall I'd ask to know
What I was walling in or walling out,
And to whom I was like to give offence.
Something there is that doesn't love a wall,
That wants it down.

Questions For Review

Checking for Understanding

1. What would a wall on the U.S.-Mexican border represent to the writer?

2. The benefits of NAFTA were more visible for Mexico than for the U.S. Why?

3. According to the writer, why would trade barriers be ineffective in solving the problems of U.S. workers?

Critical Thinking

4. Analyzing Information Study the Robert Frost poem at the end of the reading. What do you think the poem means?

5. Synthesizing Information How does the poem apply to the writer's main point in the reading?

READING 5

Excerpted from Business Week, *April 11, 2006*

Saving the Trade Agenda

Shanker Singham

As the dust settled from the World Trade Organization's Hong Kong Trade Ministerial last December, trade ministers breathed a collective sigh of relief. Disasters—such as the failure even to launch negotiations during the chaotic Seattle sessions in 1999 or the total breakdown in talks that marred Cancun in 2003—were narrowly averted. Though movement in Hong Kong was glacially slow, the free-trade train was still in motion. . . .

Still, major deadlines relating to the structure of the negotiations were postponed until the end of April. Now, as that moment nears, it appears that they, too, are likely to be missed. . . .

With each missed deadline, the possibility increases that the unthinkable could happen: the failure of a major trade round. . . . Do the current negotiations for the WTO Doha Development Agenda still matter, and what's their relevance for businesses and consumers?

The answer is that they do indeed matter—more than ever. It's only through coordinated, multilateral trade agreements that global businesses, economies, and consumers will enjoy the full benefits of free trade. The failure of Doha wouldn't stop globalization, but it would leave nations and companies to contend with today's cumbersome and expensive patchwork of bilateral agreements. Worse, it would deprive consumers in both developing and developed countries of the opportunities fostered by deregulation and open trade.

Most countries' trade negotiators accept the general principle that lowering global barriers has already benefited many people. World Bank economist David Dollar estimates that freer trade lifted some 375 million out of poverty in the last two decades alone. Yet, when it comes to putting these ideals into practice, many of these same negotiators—who publicly claim to support free trade—put the interests of local producers above the interests of consumers in their own markets, thus preventing progress in talks.

It's no wonder. Local producers tend to be politically powerful, and consumers rarely have a collective voice. Most businesses tend to work harder at protecting their existing markets than at opening up new ones. Yet some companies seeking better access to markets are now starting to find common cause with consumers in those markets. Business managers who recognize this must act on the knowledge. They must explain to their governments why opening up markets to competition is good for their own countries.

After all, most of the issues that keep business managers awake at night relate to the regulatory environment in which traders and investors find themselves. Most operate on the assumption that the regulatory environment is set in stone, and that their job is to weave their way around it.

Few realize that many of the regulatory hurdles they face are the subject of trade negotiations. Even fewer realize that by contributing to regulatory change, they may be able to radically increase their own company's market share. What stands in their way is usually the extraordinary political power of local producers. . . .

But the game isn't yet over. If trade negotiators wake up and start to negotiate for their consumers, greater competition will lead to benefits across the board. . . .

People the world over are betting that their elected representatives will stop playing protectionist games, and start to properly represent them. . . . [L]eadership from businesses who see beyond narrow national interests could be a crucial factor in tilting the agenda back to reform.

Questions For Review

Checking for Understanding

1. According to the writer, what are the consequences if the Doha Round of talks fails?
2. What does the writer believe is holding up progress of the negotiations? Why?
3. What is needed for trade reform to succeed?

Critical Thinking

4. **Making Generalizations** You negotiate all the time. Even deciding with your friends which movie to see requires negotiation. Think about negotiations in which you participate. Describe the negotiating process. Identify key elements required to come to an agreement.
5. **Making Comparisons** Lawmaking in Congress is often about negotiating. What kinds of influences affect negotiations in Congress? Are these influences similar to those affecting trade negotiations? Explain.

READING 6

Excerpted from Business Week, *February 22, 2006*

Service Workers: Stay Home

Carol Matlack

On Feb. 16, the [European Union's Parliament] voted on a proposal to liberalize Europe's service sector. The measure, known as the Bolkestein Directive, was originally intended to make it easier for service providers—from hairdressers to plumbers to accountants—to expand their businesses into neighboring EU countries.

But by the time the Parliament voted, the directive had been so watered down that it is unlikely to achieve that goal.

Service businesses account for two-thirds of the EU's economic output and employment. Yet few of them venture outside their home countries. Cross-border trade in services totals only 4.5% of the region's economy. By contrast, goods bought and sold across EU borders account for 20% of the economy.

Why the discrepancy? EU member countries long ago abolished tariffs and other barriers to internal trade in goods. But most countries still maintain regulations that make it devilishly hard for outside service companies to move in.

The chief difficulty is that small businesses, which make up most of the service sector, usually can't afford the costs of cutting through regulatory red tape in more than one country at a time. . . .

The Bolkestein Directive . . . would have taken direct aim at this problem. As originally drafted, it would have allowed, say, a Spanish bricklayer to build a house across the border in France, so long as his business complied with Spanish regulations.

EU economists have predicted that this so-called country-of-origin rule would lead to the creation of 2.5 million jobs. . . .

But the Parliament jettisoned the country-of-origin rule after fierce lobbying, mainly by labor unions fearful that their members' jobs would be threatened by the

arrival of foreign competitors. Some other provisions were left intact, such as a requirement that each country establish an agency to help service companies from other EU countries surmount regulatory hurdles.

But for practical purposes, the Bolkestein directive has been gutted. That, in turn, is a huge setback for the EU's Lisbon agenda of reforms intended to restore the region's economic competitiveness, says Ann Mettler, executive director of the Lisbon Council, a Brussels-based advocacy group, . . . "Sadly we are dealing with a trend toward protectionism and nationalism."

For advocates of the Bolkestein directive, one of the most distressing features of the debate was that businesses didn't move aggressively to counter organized labor's lobbying. . . .

Why not? Most European business-lobby groups are dominated by large companies, which can more easily afford to comply with country-by-country regulations. The region's small businesses, by contrast, have little organized representation in Brussels. . . .

. . . Productivity growth in Europe's service sector has averaged well below 1% in recent years, vs. 3% in the U.S. Burdensome regulation is a big part of the problem, Mettler and other business advocates say. Sadly, the Lisbon agenda's goal of making Europe "the most competitive and dynamic knowledge-based economy in the world" by 2010 seems more elusive than ever.

Source: Christophe Karaba

Workers in Cyprus protest the affects of globalization.

QUESTIONS FOR REVIEW

Checking for Understanding

1. Among EU members, why is cross-border trade in services less than the cross-border trade in goods?
2. What was the proposed country-of-origin rule?
3. When organized labor lobbied against the Bolkestein Directive, why did business lobbies not counter this opposition?

Critical Thinking

4. **Analyzing Information** Former Speaker of the House Tip O'Neill once said, "All politics is local." How does this statement apply to trade negotiations?
5. **Identifying Point of View** Each reading in Topic 2 deals with the free trade vs. protectionism debate. Which position does each writer advocate? Give examples of specific descriptive words from each article that reveal the writer's point of view.

ACTIVITIES

Graph Activity

The graph below describes the merchandise trade of three regional trading blocs: the European Union, NAFTA, and ASEAN (Association of Southeast Asian Nations). "Intra" means the percentage within the regional bloc. "Extra" means the percentage outside the bloc.

1. Which region does the largest portion of its importing and exporting with other nations in its trading bloc? Which region does the largest portion outside its trading bloc?

2. How would you describe the import and export patterns of the NAFTA nations?

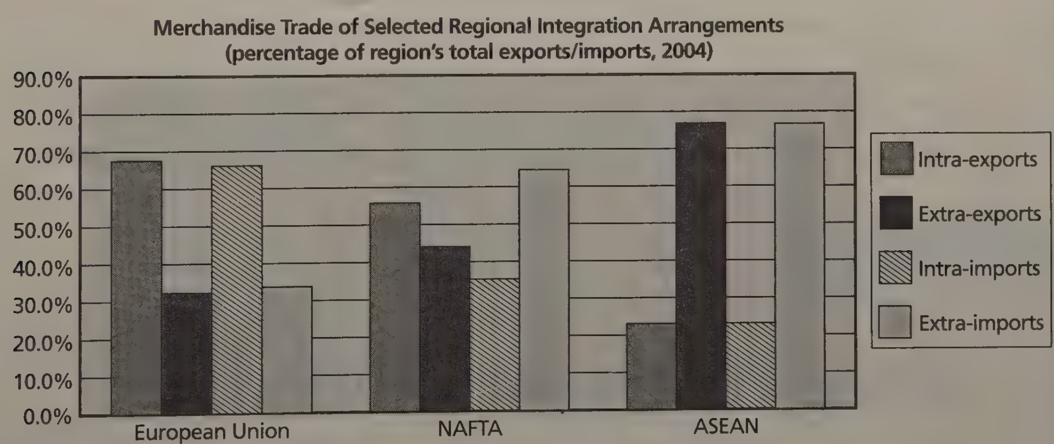
Research Activities

Independent Practice

Analyzing Issues Research the arguments for and against both free trade and protectionism. Use at least five sources. Prepare a list of the main points on both sides of the issue. Record complete source citations, including any Web links.

Cooperative Learning

Evaluating Information Organize into two debate teams. The debate question will be: Resolved: The U.S. and the rest of the world will benefit most from free trade. One team should take the affirmative position and the other the negative position. Share with your team the list of arguments you prepared from your Independent Practice research. Together, prepare a combined list of key points supporting your team's position. Do additional research, as needed. Prepare visuals to support your points. Also plan rebuttals to the arguments you expect your opponents to present. Each team should choose two speakers-one to present the team's arguments and the other to rebut opposing arguments. Hold the debate. Begin with each team's presenter, followed by each team's rebutting speaker. As a class, evaluate the results of the debate.



Source: World Trade Organization

FOCUS TOPIC 3

Outsourcing

READING 7 introduction — PAGE 17

Insource, Offshore, Outsource–*Help*!

Today, businesses large and small are looking for ways to cut costs and improve efficiency. Using outside resources can help, but there are many ways to do this. In a conversation with writer Karen Klein, expert Phil Bloodworth helps sort out the different options and the array of terms associated with them.

READING 8 introduction — PAGE 19

Offshoring: You Ain't Seen Nothin' Yet

As George W. Bush and John Kerry squared off in the presidential campaign, offshoring–once a key public concern–was losing the limelight. The economy was on an upswing, but writer Jeffrey Garten warned that the issues raised by offshoring should not be ignored.

READING 9 introduction — PAGE 21

Giving Thanks for Offshoring

There is no denying that even skilled American jobs are heading offshore, and they are not coming back. In examining this trend, writer Christopher Farrell takes a controversial stand–Americans should be grateful for offshoring.

Reading 7

Excerpted from Business Week, *May 26, 2005*

Insource, Offshore, Outsource–*Help*!

Karen E. Klein

Insourcing, offshoring, outsourcing, near-shoring: The confusing terms crop up frequently but aren't always well-defined. What do they mean in practical terms? Should small-business owners sign on to these oft-promoted business models? Do they really deliver on promised cost-savings? Smart Answers columnist Karen E. Klein recently posed these questions to Phil Bloodworth, a partner in PricewaterhouseCoopers' advisory performance-improvement practice. Edited excerpts of their conversation follow:

Q: Let's start with some definitions. We hear the term all the time, but what's really meant by "outsourcing"?
A: Outsourcing is allowing any third party to take on a function in your organization. The general idea has been around forever in the form of companies like ADP, which is a payroll provider.

What's new is something called "business-process outsourcing," which has come about in the past 5 or 10 years. This means outsourcing something that's a functional area within your organization, like accounting, human resources, manufacturing, product development, and even elements of production. These are things that used to be considered the core values of a company. Now, we have whole companies that are basically shells and outsource every aspect of what they do.

Q: What about "insourcing"?
A: Insourcing means establishing shared service centers within your own company. So you're grouping together a core competency to save money. For instance, one of my clients is an architectural firm with offices on both coasts. They have had two redundant finance units, and now they are combining them into one group that will bill the units for the costs they incur. The benefits are cost savings, standardizing processes, streamlining projects and reporting, reallocating resources into one location, and gaining efficiency.

Q: Is this a new idea?
A: No. The idea has been around a long time, but it often hasn't been done well. People are finding it now as an alternative to outsourcing.

Q: And "offshoring"?
A: Offshoring is moving any business process to a foreign location. It isn't necessarily the same thing as outsourcing, by the way. You could still own that process and offshore it. The best example here is the automotive companies, which have been offshoring for years. For instance, GM builds cars at plants all over the world. Some of the Japanese auto manufacturers have plants here in the U.S., so they're offshoring production to us.

Offshoring can also be an option connected to outsourcing. Typically, what happens is that you find a U.S. vendor, and they sell you an outsourced solution. So, you're hiring a U.S. company, but the actual taxable work is done in a foreign country—typically India, Eastern Europe, China, Vietnam, or Korea.

By the way, another option is happening now, and that's "multishoring." In this model, you outsource to a U.S. company, but the majority of the work is done in India. Because costs are on the rise there, however, the Indian team may outsource some of its technology to Vietnam. So, your company might be in Dallas, while some aspect of your business is being kicked to India, but they've got infrastructure and technology running in Vietnam, where the cost is lower. That's multishoring.

Q: How does "near-shoring" differ?
A: It's offshoring, but to a country that geographically touches you. For instance, GM building cars in Canada or Mexico is near-shoring.

Q: The general belief is that outsourcing is cheaper than doing anything in-house, but you say that's not always the case. Why?
A: Business owners tend to underestimate the related costs of outsourcing, and they underestimate what it takes to manage. You can't flip a switch with outsourcing and have everything be hunky-dory—and especially not if you're outsourcing overseas. Also, you can never outsource total responsibility for a company function or process. For instance, if you outsource something that's going out to print, you still need a proofreader in-house to look it over.

Another cost-related issue is that the outsourcer may have an up-front price, but you find that there are a bunch of add-ons that you didn't think through or put into the contract that come up later and cost more. Maybe you're used to running down the hall and having your in-house employee spit out a special report at no charge—but that won't be possible for the outsourcer.

The bottom line is, if done right, all these processes we're talking about can free up your company's capital to do product development and all the other things you need to do. Also, you may want to outsource a problem area that your company does not have the skills, people, or bandwidth to do properly.

Q: How can you make sure you're doing things right if you pursue one of these models, particularly as an entrepreneur?


Source: Brian Lee/CORBIS

A call support center in India

A: Everything revolves around the contract. If you don't personally negotiate the contract, you may not even be sure where the work is going. Get all the details straight out front. And don't lowball too much. The outsourcers have to deliver at a cheap unit rate, but you don't want your outsourcers starving to death, you don't want them to fail, and you don't want to be a low priority for them.

As a small-business person, you have to step back and make an honest evaluation of your company, how you do things, and what your total cost of ownership really is. Think about how much it costs you to do a process in-house—and make sure you include the benefits and resources of doing it yourself. I get so many calls from companies—big and little—that say they want to outsource because "everybody's doing it." But that's not the way to go into it.

Understand what's driving your need to outsource. Do you want to provide better service? Then don't be shocked if it costs you more—not less. Sit back and assess what outsourcing will really be like. . . .

Q: How does a small-business owner go about finding an outsourcer?
A: They'll find you, if you put the word out that you're interested. Before you do that, though, develop the metrics that you expect delivery on. Understand what you're looking for (or else the vendors will tell you what you need). And, by the way, that will always dovetail really nicely with what they offer.

Also, understand that [choosing an outsource partner] is a months-long process. Don't rush in quickly. Qualifying a candidate firm, matching proposals, due diligence, contract negotiations: This isn't something that you do over a weekend. You've got to ensure that it's a win-win situation for both sides, or else it'll never work.

Questions For Review

Checking for Understanding

1. How is offshoring different from outsourcing?
2. When is offshoring NOT a form of outsourcing?
3. Suppose a British firm outsources a function to a firm in China that sends a portion of this work to a firm in Thailand. What is this process called?

Critical Thinking

4. **Making Inferences** Some Japanese auto manufacturers are offshoring production to the U.S. Why do you think they are doing this?
5. **Demonstrating Reasoned Judgment** Suppose you are an entrepreneur. Describe how you would go about deciding whether or not outsourcing a function is right for your business.

Reading 8

Excerpted from Business Week, *June 21, 2004*

Offshoring: You Ain't Seen Nothin' Yet

Jeffrey E. Garten

Only a few months ago, the transfer of American jobs to India, China, and elsewhere—frequently called offshoring—was politically white hot. Now it is dying as a focus of the [Bush-Kerry] Presidential campaign. The headlines from Iraq have crowded out most other news, but perhaps more fundamentally, in the past three months a strong economy has created nearly 1 million jobs, heralding the end of a jobless recovery. President Bush has proclaimed economic victory, and Senator Kerry has backed away from his focus on "Benedict Arnold CEOs." We should cheer the good news, of course, but the downgrading of offshoring as a national issue is a big mistake.

True, the number of workers generally associated with offshoring—somewhere between 1 million and 2 million, according to most projections—isn't huge compared with a U.S. workforce of 140 million. However, I believe the recent news obscures the longer-term reality: that the transfer of jobs abroad, particularly service jobs, will gradually accelerate for generations to come. The U.S. will not be prepared to deal with that unless more deliberate policies are put in place.

Forrester Research Inc., the most widely quoted company on offshoring statistics, estimates that 3 million to 5 million more jobs will be transferred in the next 5 to 10 years. But that projection and others like it may vastly underestimate the future challenge. The combination of rising productivity made possible by widespread use of information technology, plus the unrelenting pressure on U.S. companies to continue to cut labor costs, guarantees that more work will be done in America by fewer people. In addition, from China to the

Czech Republic, there is virtually an unlimited supply of industrious and educated labor working at a fraction of U.S. wages. And these workers' skills will be enhanced by the expansion abroad of the research operations of companies such as IBM and Intel employing local talent.

Moreover, as U.S.-based employers consider the cost of adding either one American or, say, one Indian to the payroll, the alternative of offshoring will put downward pressure on middle-class wages throughout the U.S. And in a broadband world that allows overseas work to be supervised in real time, the sheer speed at which large swaths of the service sector can be moved to another country will create far more disruption for workers and communities than we've seen so far in the slower-moving manufacturing sector.

For all these reasons, offshoring is the canary in the mine shaft, signaling wrenching adjustments for the American workforce. What is needed in the U.S. is a broad package of policies that do not endeavor to preserve today's jobs artificially but to create the best possible environment for the jobs of the future.

As workers seek new employment, they need the following: affordable health insurance that they can take from job to job, pensions that are equally portable; extended unemployment benefits; insurance to guarantee minimum income for periods between jobs; and tax credits or loans for education and training. These policies aren't luxuries. They are a prerequisite for the viability of a robust American workforce.

Second, Washington should press other nations to open their markets faster and to comply scrupulously with trade rules. It should also push them to rely less on exporting to us than on generating their own internal growth, thereby creating many new American jobs related to exports of sophisticated services, from medical advice to architectural design. And the U.S. should get behind minimum international labor and environmental standards to level the global playing field.

A third imperative is educating more scientists and engineers and establishing an immigration policy that allows foreign talent to work more easily in the U.S. A study released in May by the National Science Board paints a picture of dwindling American prowess in new patents, pathbreaking research, and innovation. Policies to reverse these trends, starting with less restrictive visa requirements for the best and brightest foreign students, are sorely needed.

Long after the American occupation of Iraq, and years after the current upswing in the business cycle, the issues raised by offshoring will be a central American concern. In giving them short shrift, both George Bush and John Kerry are not only letting Americans down today but also ensuring bigger problems down the road.

Source: PRAKISH SINGH/AFP Getty Images

Some companies hire foreign specialists rather than outsource the work.

QUESTIONS FOR REVIEW

Checking for Understanding

1. What trend did the writer foresee in job transfers overseas?
2. Why did offshoring become less important as a political issue during the Bush-Kerry Presidential campaign?
3. Summarize the writer's three main recommendations.

Critical Thinking

4. **Analyzing Information** The writer calls offshoring "the canary in the mine shaft." To what practice does this metaphor refer? Why was this practice done? How does this metaphor apply to the theme of the reading?
5. **Making Predictions** If policymakers do not act as the writer suggests, what consequences might occur in the U.S.?

READING 9

Excerpted from Business Week, *November 22, 2004*

Giving Thanks for Offshoring

Christopher Farrell

Ah, Thanksgiving. It's a day for giving thanks for family, friends, and food. It's also a good time to reflect on 2004 and think about what we're grateful for when it comes to the economy. . . . Record homeownership is on my list. So is an improving job market. . . .

Still, my No. 1 spot is reserved for the offshoring of skilled-service jobs by American corporations. Yes, you read that right. Americans should be deeply thankful for the emerging trend of American (and European) companies outsourcing software development and other skilled tasks to India, Ireland, the Philippines, and other developing-world havens.

Nothing I have written about over the past year generated as many angry e-mails as my comments defending the free trade of offshoring despite a weak U.S. job market. . . . [Yet] consider the following: Offshoring is a wake-up call to America.

Companies may have gone to India to save money on back-office operations, such as pay-roll, order fulfillment, and customer service. But they're continuing to do business with Indian high-tech companies because of the quality of the work being done. So, those jobs aren't coming back, and that means we have to create new ones here.

Offshoring is a result of three simultaneous and independent events at this juncture in economic history. First, education levels are rising throughout the developing world—the pay-off from decades of investment. Second, many developing nations have been liberalizing their economies, especially after the collapse of communism toward the end of the 1980s. Last is the information-technology revolution, which made it possible to link developed nations' companies with developing nations' workers—and do it cheaply.

In general, rising economic prospects in much of the developing world is good, a force for expanding opportunities and eliminating poverty. But the competition for investment

money and corporate profits in the global economy is now growing faster than many economists thought possible even a few years ago. To be sure, the rapid integration into the developed-world labor market of some billion workers in China and India is opening up new opportunities to sell cars, washing machines, software, and many other commonplace goods made by American multinationals.

Still, workers overseas will only spend a portion of their low-income earnings on U.S. products. And Americans will continue to lose jobs because of cheap skilled labor overseas. The upheaval is causing havoc all over the U.S., from skilled U.S. programmers in Silicon Valley to textile workers in the American South.

So why cheer offshoring? The main reason is that the offshoring challenge focuses attention on what spurs job creation: The formation of new markets and the meeting of new wants. . . .

Amar Bhide, professor of business at Columbia University, . . . expressed [this] idea: "The long-run prosperity of the West depends on the capacity of its entrepreneurial individuals and firms to create and satisfy new consumer wants."

That means the major institutions of society—government, education, and business—need to focus a lot more money and effort on educating the American workforce. For instance, the Bush Administration took a step in the right direction with its No Child Left Behind legislation. But now the Administration needs to back the legislation with enough money—lots of it. The same goes for fundamental research at America's major universities and institutes.

. . . To be sure, the mammoth federal budget deficit makes it hard to call for more investment. Yet, there are many places where spending could be cut to allow for greater investment in human capital. . . .

However, it will take time for substantially higher investments in education from the preschool years through university to pay off. In the meantime, America should keep the welcome mat out for educated, skilled immigrants. . . .

But in the post 9/11 world, it's getting harder and harder for skilled Chinese and Indian professionals to come here to work and study. While the current bias toward saying no is understandable, the economic price is too high. The Administration could devote more management talent and political capital in getting rid of bureaucratic obstacles that are denying entry to skilled foreign workers.

The way economists look at the world, the efficiency gains of offshoring free up resources in the U.S. The key question is what do we do with those resources. The offshoring challenge says invest in human capital and open borders. That's how we'll generate the good middle-class jobs of the future—and give more people something to be thankful for.

QUESTIONS FOR REVIEW

Checking for Understanding

1. What is the main economic development for which the writer is giving thanks on this Thanksgiving Day? Why?
2. According to Professor Bhide, on what does the long-run prosperity of the West depend?
3. According to the writer, how will good middle-class jobs of the future be generated?

Critical Thinking

4. **Making Comparisons** What similarities do you see in the main ideas of this reading and those of Reading 8?
5. **Determining Cause and Effect** How do you think the development of information technology is influencing the number and types of jobs available in the U.S.?

ACTIVITIES

Cartoon Activity

Answer the following questions about the cartoon below.

1. The word "envelope" is used in two different ways in the cartoon. What type of job does each use of the word represent?
2. How does the cartoon relate to outsourcing and American jobs?

Research Activities

Independent Practice

Analyzing Information Write a list of your main skills, aptitudes, and interests. Then research jobs of the future. What kinds of jobs do experts expect to grow? What skills and degrees do the jobs require? What work tasks do they entail? What are the working conditions? How much can workers expect to earn? Match your findings to the list of your own skills, aptitudes, and interests. Select three jobs that best fit you. Make a table of the key facts about those jobs.

Cooperative Learning

Synthesizing Information Form small groups. Your goal is to create a cartoon about some aspect of outsourcing. Do research to collect cartoons related to outsourcing topics. Brainstorm topics you might use for your cartoon, using your cartoon collection for ideas only. Do not reproduce an existing cartoon. Together, select an idea and sketch the cartoon. Make revisions based on group feedback. Prepare the final version on a poster to display in the classroom.

"I used to be on the cutting edge, always pushing the envelope. Now I stuff them."

Artist: Mike Baldwin

FOCUS TOPIC 4

Trade Imbalance

READING 10 introduction

PAGE 25

Why The Trade Deficit May Not Loom So Large

A nation's balance of trade is the difference between the value of its imports and the value of its exports. For many years, U.S. imports have greatly exceeded exports, resulting in a trade deficit. Observers often view this persistent trade deficit as a sign of weakening of the U.S. economic position in the world. Writer Laura D'Andrea Tyson, however, views the numbers differently.

READING 11 introduction

PAGE 27

U.S.: Why The Ever-Widening Trade Gap Is So Worrisome

U.S. exports are rising, even to China–the source of massive amounts of U.S. imports. Yet the U.S. trade deficit is still climbing. Why? Imports are rising much faster than exports. The gap is so large now that exports must grow at a much greater rate just to maintain the current gap. How will this growing deficit affect U.S. financial markets and the strength of the dollar?

READING 10

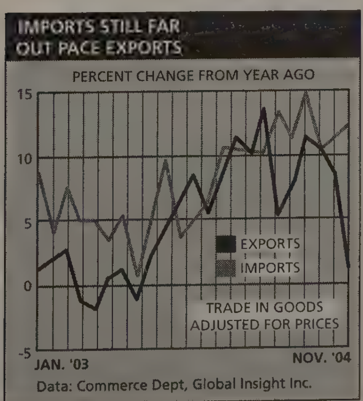
Excerpted from Business Week, *June 7, 2004*

Why The Trade Deficit May Not Loom So Large

Laura D' Andrea Tyson

In 2003, after more than a decade of persistent and sizable increases, the U.S. trade deficit hit a high of 5% of gross domestic product. In March of this year the deficit reached $46 billion, shattering previous monthly peaks and putting the economy on course for another annual record. Since the trade imbalance is the most widely watched—and politically sensitive—indicator of America's international economic position, its unexpected March surge renewed selling pressure on the dollar and fueled protectionist sentiments. Yet the trade deficit is a misleading gauge of the nation's economic health.

Discussions of trade imbalances are often cast in "us-vs.-them" terms. According to popular rhetoric, if we export more than we import, we live within our means, and our companies and workers are beating their foreign counterparts. If we import more than we export, we spend more than we produce, and our companies and workers lose to foreign competitors. But who are we? As multinational companies expand their global production, sales, and sourcing networks, trade statistics give a deceptive answer.



U.S.-based multinationals account for 25% of American GDP and 20% of its employment. Despite their growing foreign operations, they remain decidedly American. In 2001, 77% of the global production, 80% of the global capital spending, and 74% of the global employment of U.S. multinationals occurred at home. From 1991 to 2001, these companies added five jobs in the U.S. for every three overseas.

U.S. multinationals are also significant traders. In 2001, they accounted for about 58% of U.S. merchandise exports and about 38% of U.S. merchandise imports. Trade within U.S. multinationals—between parents and their foreign affiliates—accounted for a quarter of U.S. exports and 16% of U.S. imports. Such trade—and the bilateral imbalances it generates—should be understood not only as a reflection of the state of the U.S. economy but also as a manifestation of the economic decisions of individual U.S. companies.

The nation's trade statistics also overlook the reality that most U.S. multinationals rely more on their own overseas operations to sell goods and services around the world than on traditional trade channels. According to Rebeeca McCaughrin, a Morgan Stanley economist, global sales through foreign affiliates were roughly equal to total U.S. exports in 1990. In 2002, these foreign affiliate sales totaled $17.7 trillion, more than double global exports of about $8 trillion. Now the global sales of the foreign affiliates of U.S. multinationals are about three times as large as total U.S. exports. Indeed, adding these sales to U.S. exports would reduce the U.S. trade imbalance by almost a full percentage point of GDP. Since U.S. multinationals are largely "us," that makes sense. We should consider reporting our trade data that way in addition to our conventional method.

Contrary to popular belief, U.S. multinationals continue to set up foreign operations not primarily to serve the U.S. market from low-wage production platforms but rather to serve overseas markets from local operations. In

fact high-wage countries, such as those in Europe, accounted for more than 60% of the employment of the foreign affiliates of U.S. multinationals in 2001, and nearly two-thirds of these affiliates' sales went to local customers. Some 24% went to other foreign markets. Only 11% of affiliate sales went to U.S. customers.

So far, at least, the pattern of foreign direct investment by U.S. companies reveals a mostly make-where-you-sell rule, and affluent countries offer the most attractive sales opportunities. That could change soon, though, with the rapid development of China.

What do the facts about U.S. multinationals imply for American economic policy? First, the goal of policy should be to enhance the allure of the U.S. as a production location. A recent report by the Electronic Industries Alliance contains many sound proposals, including fast-track visa approval and broadening trade-adjustment assistance to all workers. Second, the primary goal of U.S. trade policy should be to make sure that companies based in the U.S. have access to foreign markets on fair terms—companies should not be forced to produce in foreign markets in order to sell in them. Third, the U.S. tax code should be adjusted to correct for the fact that over the past two decades the U.S. has become a less attractive production location from a corporate tax perspective. Finally, national trade statistics should be reported in ways that better capture the realities and complexities of our borderless world.

Questions For Review

Checking for Understanding

1. What does the writer think of the use of the trade deficit to judge U.S. economic health?
2. When a U.S. multinational sells products through its foreign affiliates, how are these sales reflected in U.S. trade statistics?
3. One reason that U.S. multinationals locate some operations overseas is to gain access to low-wage labor. What is another reason?

Critical Thinking

4. **Summarizing Information** In your own words, summarize the writer's four recommendations.
5. **Making Predictions** What positive and negative effects might occur if more foreign companies began to locate operations in the U.S.?

READING 11

Excerpted from Business Week, *March 1, 2004*

U.S.: Why The Ever-Widening Trade Gap Is So Worrisome

James C. Cooper and Kathleen Madigan

Strange to think that just six years ago a $20 billion monthly trade deficit seemed impossible. But in 2003, the trade gap consistently ran at twice that amount. . . . Will 2004 bring a new high-water mark?

Probably, but the good news is that the increase in the gap between imports and exports this year will most likely be the smallest in years. . . . Trouble is, . . . imports are so much larger than exports that exports have to grow substantially faster just to hold the trade deficit steady. . . .

. . . Financing the growing chasm between what America buys from the rest of the world and what it sells overseas is running up against Washington's need to fund the massive fiscal deficits expected for the next five years, if not beyond. Thus, the U.S. financial markets will have to find a way to attract enough foreign capital to fund both the U.S. trade and federal shortfalls. Without a reversal in either deficit, this increasingly hard challenge will add to the dollar's vulnerability.

The dollar's decline so far has been orderly, resulting in a lift for exports. . . .

The dollar has been sinking for two years now, but its fall has been particularly steep against the currencies of two major markets: Canada and the euro zone. . . . Because of the dollar's fall against the euro, U.S. companies are gaining an edge over their European rivals when they market their products to emerging economies. . . .

Perhaps the biggest gain will come from larger shipments to China, especially if the government there allows the yuan to appreciate slightly. True, most of the recent media attention has focused on the record U.S. merchandise trade deficit of $124 billion with China. But that shortfall was caused by the flood of goods imported from China. What the press has largely missed is that the Middle Kingdom is a rapidly expanding market for American goods. . . .

Unfortunately, the healthy gains expected for exports probably won't offset the deterioration in the trade deficit coming from the rise in imports. Imports in 2003 stood at $1.5 trillion, about 50% greater than the export total. Even if exports post a 10% advance this year, imports cannot grow faster than 7% if the trade deficit is to remain at the 2003 level.

Imports, however, are very likely to grow much faster than 7%. First, U.S. demand is increasing about 4.1%. In the 1990s, when demand was that strong, imports were rising at a rate of 10% to 14% a year. . . .

Second, the lower dollar, while a boon to exports, isn't helping much on the import side. That's because some of the fastest-growing sources of imports to the U.S. are nations that peg their currencies to the dollar. That has been a key criticism against China. . . . Because of the locked exchange rates, the dollar is down only 13% over the past two years on a broader trade-weighted basis, despite its plunge against the euro and Canadian dollar. . . .

Does an ever-growing trade deficit matter? Clearly, an expected pickup in both exports and

imports is yet another sign of an improving U.S. economy. But the potential problem is how the financing of the trade gap will affect the financial markets, especially when the only market mechanism for redressing the trade imbalance is a weaker dollar. How far and how fast the dollar will have to plunge is one of the biggest unknowns.

Who's Buying the Most U.S. Goods Merchandise Exports (billions of dollars)			Where Most Imports Are Coming From Merchandise Imports (billions of dollars)		
	2003 Total	Dollar Change from 2002		2003 Total	Dollar Change from 2002
Canada	$169.77	$8.85	Canada	$224.17	$15.08
Mexico	97.46	–0.01	China	152.38	27.19
Japan	52.06	0.61	Mexico	138.07	3.45
Britain	33.89	0.69	Japan	118.03	–3.40
Germany	28.85	2.22	Germany	68.05	5.54
China	28.42	6.29	Britain	42.67	1.93
S. Korea	24.10	1.52	S. Korea	36.96	1.39
Total	724.00	30.90	Total	1,259.70	98.33

Data: Commerce Dept., *BusinessWeek*

QUESTIONS FOR REVIEW

Checking for Understanding

1. What do U.S. financial markets need to do to obtain the funds to finance both the trade deficit and the federal budget deficit?
2. What will likely happen to the U.S. dollar if these two deficits continue to climb?
3. Why did the value of the dollar drop less against the Chinese yuan than it did against the euro and Canadian dollar?

Critical Thinking

4. **Determining Cause and Effect** A decline in the U.S. dollar against other currencies tends to boost U.S. exports. Why?
5. **Analyzing Information** Based on the table above, which country increased its purchases of U.S. goods the most in 2003? How do you know?

ACTIVITIES

Graph Activity

Study the graph below. Then answer the following questions.

1. What general trend do you see in the U.S. trade deficit from 1991 to 2005?
2. How would you describe the rate of change in the trade deficit in the period 1991 to 1997 compared to the period 2001 to 2005? How do you know?

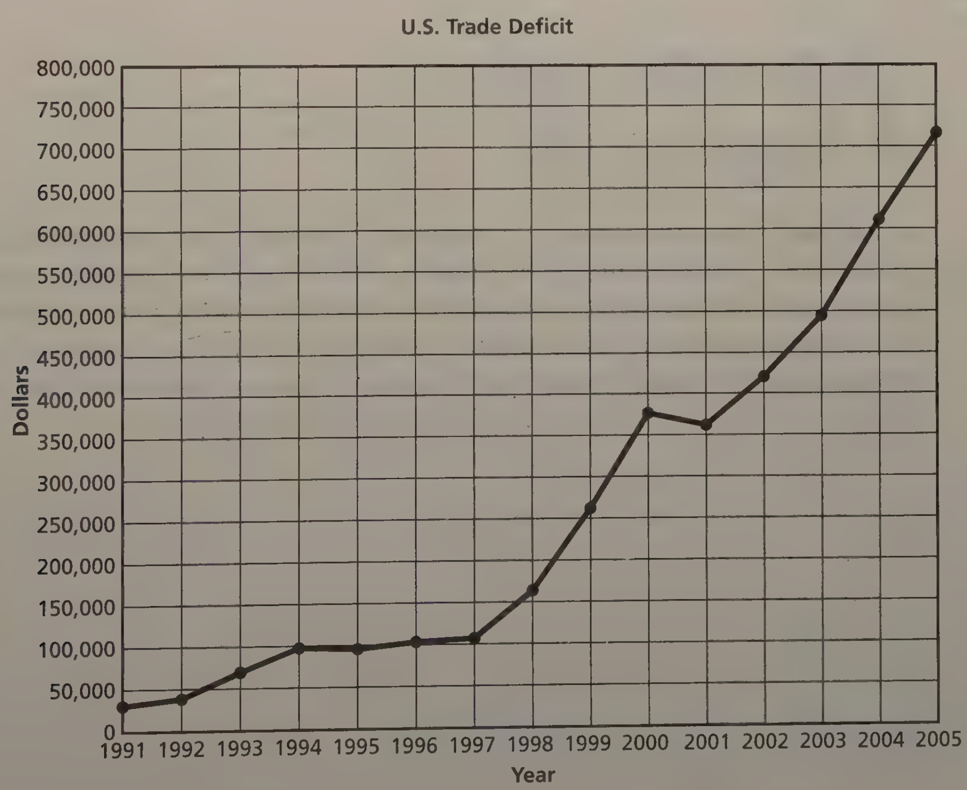
Research Activities

Independent Practice

Making Comparisons Select two countries, one highly industrialized and the other a developing economy. For each country, find the amount of its trade surplus or deficit each year for the last 10 years. Make a line graph of your findings. Then write a paragraph comparing the trends for each country displayed on the graph.

Cooperative Learning

Synthesizing Information Form small groups. Each group should select a different multinational corporation to research. The corporation may be based in the U.S. or elsewhere. Prepare a profile of the corporation's international operations. For example, how many foreign workers does the company employ? Where does it operate internationally? What functions does it outsource? What are the company's plans for future overseas operations? Present your profile to the class. Prepare supporting visuals using presentation software, overhead transparencies, or a flipchart.



Source: U.S. Census Bureau

FOCUS TOPIC 5

Global Oil Issues

Why You Should Worry About Big Oil

Sticker shock at the gas pump and record oil profits are prompting consumers to turn an accusing eye toward the major international oil companies. Yet the oil companies have a big problem—and their problem holds serious implications for our future.

China and India: A Rage for Oil

When it comes to oil, it's a seller's market. Two fast-growing economies, China and India, need oil to fuel their growth, and they have the money to compete for it. Their rivalry for resources is playing out in bidding wars, sending prices for oil reserves to lofty heights. Writer Jason Bush takes a look at their recent skirmishes and the factors that influenced the outcomes.

READING 12

Excerpted from Business Week, *May 15, 2006*

Why You Should Worry About Big Oil

Stanley Reed, with Christopher Palmeri, Peter Coy, Rose Brady, and Mark Morrison

You'd think the Apr. 26 oil summit in Qatar would have been an occasion for the industry to celebrate. The world's top energy executives were there, and they could all point to record profits and record demand. But rejoice? John Browne, CEO of London giant BP PLC, says instead that the atmosphere was strangely glum. "There wasn't anyone smiling," he says. "They were worrying that the price was too high."

Browne's comments underscore a surprising point. Big Oil, that clutch of oil and gas giants in the U.S. and Europe, has big problems. Yes, we know it sounds ridiculous. Exxon Mobil Corp. has been reporting the lushest earnings in the history of the business, notching up $8.4 billion in its latest quarterly report. Combine the forecasted 2006 earnings of BP, Royal Dutch Shell, Chevron, Total, Conoco Phillips, and ExxonMobil, and you get roughly $135 billion. . . . a sum greater than the gross domestic product of the Czech Republic or Israel. Why worry about them?

Well, you don't have to love the big oil companies to worry about their ability to provide us with the energy we need. That job is getting difficult, thanks to huge technical challenges, competition from national oil companies, and demanding, even hostile foreign governments. . . .

So the majors may be making billions, but they are struggling to put them safely and soundly to work. Overall production at the oil majors is struggling to keep up with demand, and the reserve replacement ratio, the measurement of how well they are replenishing their supplies, is slipping. A healthy ratio should always be over 100%. But ratios for most of the six oil majors will slip below that level over the next five years, according to Sanford C. Bernstein & Co. "That's nowhere near the rate of reserves needed to satisfy world demand," says Robert E. Gillon, an analyst at oil research firm John S. Herold Inc. While most analysis think oil will hover at its current price, some think that if prices mimic the last big runup between 1970 and 1980, oil could hit almost $200 a barrel by dacade's end, or about $6 for a gallon of gas. Washington consultants PFC Energy figures the world is consuming oil at more than two times the rate of discovery of new supply. Conservation and efficiency gains have already saved billions, but they have not been enough to offset sharply rising demand from China and India.

But even if oil prices were to slump—and pros like BP's Browne believe that prices could still "turn on a dime"—the predicament of Big Oil and its customers would persist, since so much of the global oil patch is now off-limits. In theory that shouldn't matter, as long as someone is getting the oil to market. In practice, though, the private oil companies are better than national companies at the technology and innovation that get the best results. Over the long haul, if Big Oil can't apply its skills fully, consumers will suffer more than they expect.

A decade ago, in a time of low prices, countries like Russia and Venezuela happily offered good deals to the majors. Now, the big reserve holders figure they can dictate the size of their cut. They are adjusting tax regimes and contracts so that the higher the price climbs, the fatter the percentage that goes to government coffers. Russia and Saudi Arabia are becoming wary of allowing the majors in at all. Gaining access to reserves keeps oil CEOs awake at night. Recent auctions of exploration blocks in Algeria, Libya, and Egypt have yielded terms that many executives believe won't generate returns to compensate for ever-higher risks. "It is becoming increasingly difficult to find attractive ways to reinvest today's profits," says PFC Energy Chairman J. Robinson West.

It won't get any easier. In the 1960s, 85% of known reserves worldwide were fully open to the international oil companies. That number is now 16%. The rest of the world's oil and gas is either restricted or entirely cordoned off. "You don't have an infinite number of prospects to drill anymore," says T. Boone Pickens, the raider and oil patch veteran. In 1979, U.S. and British companies accounted for 27.8% of world oil and gas production. By 2004 their share was just 14%, says Bernard J. Picchi, an analyst at Foresight Research Solutions LLC in New York. National champions such as Saudi Aramco, Kuwait Petroleum, and Mexico's Pemex outweigh publicly traded oil companies in the production contest. "Everyone is pointing their fingers at the ExxonMobils, but they are relatively small players," says Gal Luft, co-director of the Institute for the Analysis of Global Security.

While the international majors are not the altruistic utilities that U.S. politicians might wish them to be, their main interest is in efficiently extracting and selling oil and gas. . . . [T]he Western oil majors are usually best equipped to tackle the hardest projects. National oil companies, though, often have a different agenda. "More and more production and reserves are controlled by governments or institutions that have more of a political than a commercial motive," says Gerald Kepes, a managing director at PFC Energy. "That has a huge impact on pricing."

The track record of Petróleos de Venezuela (PDVSA), the Venezuelan national oil company, is a striking example. For President Hugo Chávez, PDVSA is a cash cow for social programs, and developing new production is apparently a low priority. Since 1998, just before Chávez took power, PDVSA's output has fallen by 46%. Iran, which has largely excluded foreign companies, has seen capacity fall from 7 million barrels per day before 1979 to below 4 million barrels. . . .

Source: Ji Gnoqiang/ImagineChina.com

BEIJING China's demand for oil has soared in recent years.

Given these ever-tighter restrictions, the oil majors are milking the acreage they hold in politically stable zones for all that it's worth. They include the North Sea, the Gulf of Mexico, and the North Slope of Alaska. Discovered in the 1960s and '70s, they are being depleted. . . .

With the older fields fading, the industry is turning to nonconventional sources like liquefied natural gas and tar sands. "The easy energy is already tackled," says Malcolm Brinded, Shell's executive director for exploration and production. "The industry is going to have to do more and more challenging projects." . . .

. . . Morgan Stanley figures the costs of finding and developing a barrel have tripled since 1999, to over $10. Donald L. Paul, Chevron's chief technology officer, notes that offshore wells now often have to drill 10,000 feet or more to find oil: 600 was once the limit. "Wells are $50 million and up," says Paul. A decade ago, they cost $10 million. Companies also say it's not easy finding the personnel needed to man these projects, especially in the West. In Russia, China, and elsewhere, it's a different story. . . . The scarcity of people and equipment is delaying projects, putting further pressure on costs and prices.

. . . Consumers take note: Big Oil has a future. But despite that gusher of profits, it's not an easy one.

How will the majors respond to these challenges? Seasoned fields like the North Sea are enormously profitable. But as the majors switch to far more expensive fields, returns will drop. The big companies of course have huge resources. . . . And the majors have a head start if the industry shifts to alternative fuels. But the oil companies are still finding it easier to return billions to shareholders than find sensible new investments. Last year the six majors spent $71 billion on capital investment, but $74 billion on share repurchases and dividends.

In the long run, the big oil companies that can't find a way to invest profitably in their industry could find themselves vulnerable. . . . Consumers take note: Big Oil has a future. But despite that gusher of profits, it's not an easy one.

Questions for Review

Checking for Understanding

1. How does government control of oil reserves affect the major oil companies?
2. How do the motives of national oil companies differ from those of the major international oil companies?
3. How are the international oil companies responding to the ever-tighter restrictions and the depletion of their older fields?

Critical Thinking

4. **Analyzing Information** According to the reading, a healthy oil replacement ratio should always be over 100%. Why?
5. **Making Predictions** If the oil replacement ratio consistently fails to exceed 100%, what are the implications for prices and economic activity? Explain.

Reading 13

Excerpted from Business Week, August 25, 2005

China and India: A Rage for Oil

Jason Bush

American attention has lately been focused on China's emergence as a competitor for dwindling oil supplies. . . . But a different, yet equally intense, energy rivalry sure to have a dramatic effect on geopolitics has been playing out on the far side of the globe.

Asia's other emerging powerhouse, India, is just as hungry for supplies as China. The two are battling each other in oil patches from Sudan to Siberia as they try to secure the resources to fuel their growing economies. So far, the Chinese have the upper hand in the competition.

The latest skirmish came on Aug. 22, when the board of PetroKazakhstan Inc., a Canadian-owned company with oil fields in Central Asia, accepted a

$4.2 billion takeover bid by state-owned China National Petroleum Corp. CNPC beat a $3.6 billion offer from India's own state-owned giant, Oil & Natural Gas Corp.

ONGC has said it may make a counteroffer, but the competition has already pushed the price into the stratosphere. CNPC's bid was a 21.1% premium on the price of PetroKazakhstan's shares. . . .

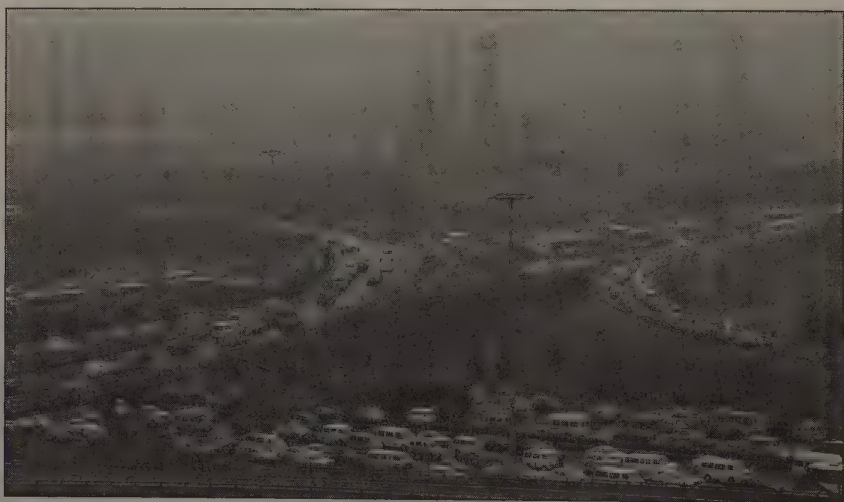
Both of Asia's rising powers desperately need energy. China today imports roughly half its oil. Consumption rose by 15% last year and is forecast to jump by an additional 9% this year. By 2025, China will burn through 14.2 million barrels a day, double this year's level, the U.S. Energy Dept. predicts. India's oil imports are expected to rise to some 5 million barrels a day by 2020, from around 1.4 million barrels at present.

The Chinese are gaining ground in Russia. Last December both New Delhi and Beijing negotiated with Moscow as it sought financing for its $9 billion renationalization of Yuganskneftegaz, the core production subsidiary of the troubled oil major Yukos. Although neither Asian rival walked away with equity in the Russian company, the Chinese ended up lending the Russians $6 billion in return for guaranteed oil supplies at a bargain price. . . .

That's largely because China has greater financial muscle. In the past five years, CNPC has invested $45 billion in new energy sources, compared with ONGC's $3.5 billion. Another problem, some grumble, is India's democratic—and therefore slow—political system, which may make it harder for ONGC to jump at investment opportunities abroad. "Whenever we've seen the Indians and Chinese tussle, the Chinese have been faster and more aggressive in attaining their objective," says Stephen O'Sullivan, head of research at United Financial Group.

But don't count India out yet. The country's hopes of international expansion are being kindled by Delhi's energetic Petroleum & Natural Gas Minister, Mani Shankar Aiyar. And despite China's deal with Russia after the competition for Yuganskneftegaz, India holds some strong cards with regard to Russia, which is rapidly emerging as a key source for Asia's energy needs.

Moscow has a friendship with Delhi that dates to the Cold War—while the Kremlin has long viewed Beijing with mistrust. India and Russia have been busy bolstering their extensive military and scientific ties, most recently through Delhi's Aug. 16 purchase of 250 Russian engines for use in a new Indian military jet trainer. India has already invested $1.7 billion in Sakhalin-1, a major oil-and-gas field off Russia's Pacific coast, and recently committed an additional $3 billion for investments in other projects.



Source: China Photos/Getty Images

China has 26 million cars on its roads today. That number is expected to double by 2010.

China, meanwhile, is emerging as a player in Central Asia. Beijing has signaled its support for the region's authoritarian leaders, who face criticism in the West and the threat of unrest at home. And Kazakhstan has a strong economic incentive to look to China, the closest and most obvious major market for its oil. PetroKazakhstan has proven and probable reserves of 550 million barrels and produces 150,000 barrels a day. Much of that will probably be processed at Chinese refineries following the completion of a pipeline between the two countries.

As the global economic balance shifts toward Asia in the decades ahead, China and India may well cooperate in many spheres. Energy, clearly, will not be among them.

Questions For Review

Checking for Understanding

1. In the competition between China and India for energy resources, who is currently winning? Why?

2. What competitive advantage does India have over China in negotiating for energy from Moscow?

3. How is China building relationships with Central Asian nations?

Critical Thinking

4. **Demonstrating Reasoned Judgment** In the competition for energy between Chinese and Indian state-owned companies, politics play a prominent role. Do you think politics influence foreign oil deals made by private U.S. oil companies? Explain.

5. **Making Predictions** Do you think dwindling oil supplies will foster greater rivalry among nations or greater cooperation? Explain.

ACTIVITIES

FOCUS TOPIC 5

Graph Activity

Study the graphs at the bottom of the page. Then answer these questions.

1. What is the projected trend for oil and gas production between 2006 and 2010?
2. How do the bar graphs relate to the line graph?

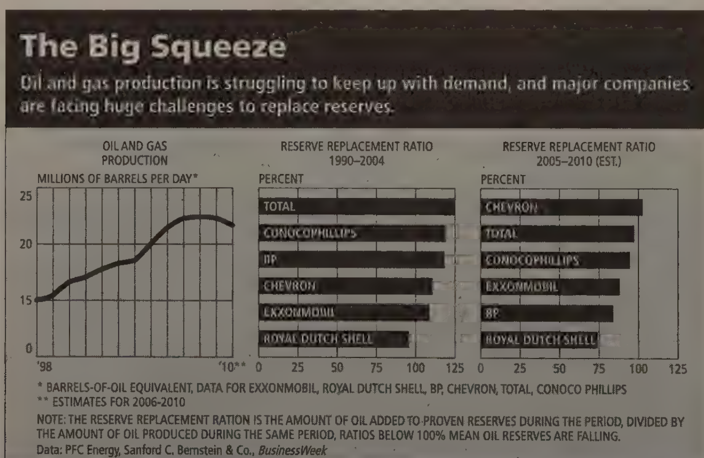
Research Activities

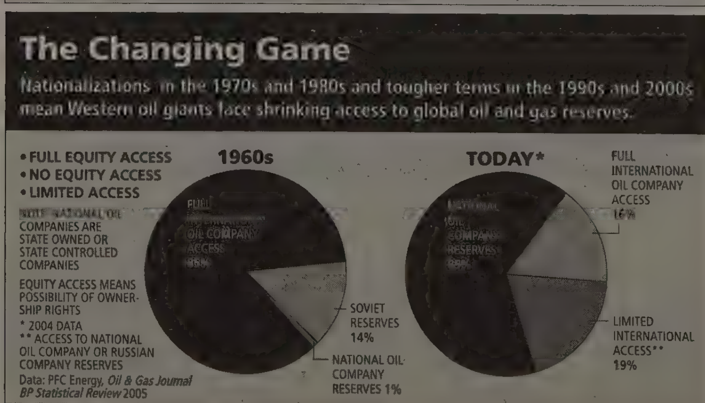
Independent Practice

Analyzing Issues Whether or not to allow drilling for oil in the Arctic National Wildlife Refuge has been a continuing debate in the United States. Research the arguments on both sides of this issue. Then decide where you stand. Write a report, stating your position and supporting it with facts from your research.

Cooperative Learning

Synthesizing Information Why is oil so expensive? Much of the price results from the costs of finding oil, extracting it, and refining it. Organize into three groups. One group should research the process of discovering oil; another group, extracting oil; and the third group, refining oil. Each group should prepare a bulletin board display that traces the sequence of tasks involved in the activity. The display should include illustrations with short explanatory descriptions, leading viewers through the complete process.





Economics and the Environment

FOCUS TOPIC 6

A Big, Dirty Growth Engine

When the 2008 Olympic Games open, the world will see a sparkling, newly cleaned Beijing. What the world won't see is the "real" China–one of the most polluted nations in the world. Yet there is hope. Green technology is starting to take hold in China.

What Price Pollution?

The Kyoto Protocol is an international agreement to limit the release of certain gases, especially carbon dioxide, into the air. These gases, called greenhouse gases, are contributing the problem of global warming. Writer Laura Cohn explains how the system of credits works to reduce emissions of these gases.

Wall Street's New Love Affair

Professional investors have typically considered companies working on environmentally friendly technologies as fringe investments at best–until now. What turned "green" companies into the darlings of Wall Street? The writers explain the events fueling the green movement and how investors hope to cash in.

READING 14

Excerpted from Business Week, *August 22, 2005*

A Big, Dirty Growth Engine

Frederik Balfour

The 2008 Beijing Olympics don't look like much today. At most of the sites around the city, ground has barely been broken. But look a little closer and you'll find that the games have already had a dramatic impact in the form of a thorough pollution clean-up.

China's leadership knows the Olympics may define the country's international image for decades. So officials have spared nothing in their efforts to show how green they can be. On clear days it's now possible to look down Changan Avenue and see the peaks of the Western Hills, which had been obscured for years. Most homes and businesses have converted from coal heat to natural gas. . . . Beijing has moved nearly 130 factories out of the city and is building cleaner, gas-fueled power stations while installing scrubbers in older ones. . . . By the time the Olympic torch is passed, a sparkling Beijing may well wow the world.

And the world will be misled. The reality is that despite all the effort spent on cleaning up the capital and a handful of other big cities, China is at best at a standstill in its fight against environmental degradation. For all its efforts, China's unrestrained growth makes it one of the world's worst polluters. . . . Because most of China's electricity comes from power plants that burn high-sulphur coal but lack effective emissions controls, acid rain falls on one-third of the country. And 70% of its lakes and rivers are heavily polluted, largely because more than 80% of China's sewage flows untreated into waterways. . . .

In most of the country, enforcement of environmental regulations is lax. The State Environmental Protection Administration (SEPA), which oversees the environment nationally, is woefully understaffed, with a workforce of just 300 in Beijing and only 100 more for the rest of the country. That means monitoring and enforcement generally fall to local officials, or even factory managers—whose first priority is to create jobs, whatever the environmental cost. . . . "The environmental bureaus of local governments would rather develop GDP than perform their role" as pollution watchdog, says Zhao Jian Ping, senior energy specialist at the World Bank in Beijing.

What's more, even where waste-treatment gear is installed, some Chinese companies opt to pay fines rather than operate expensive equipment. The cost of cleaning up wastewater from a yeast plant can reach $610 per 1,000 cubic meters, while the penalties are just $490 per 1,000 cubic meters. Furthermore, noncompliance is preferred by

Source: Bojan Brecelj/CORBIS

Six of the world's ten most-polluted cities are in China.

local officials, since fines shore up budgets. SEPA says that while most major industrial plants have water-treatment facilities, one-third don't operate them at all and another third only use them occasionally.

Coal may be the biggest culprit. China has tens of thousands of small mines that pay scant attention to environmental concerns or safety. Such neglect helps keep costs down, making coal the preferred source of energy. . . . [C]oal-based electricity generation costs a fraction of alternative energy sources. . . .

The good news is that plenty of companies selling green technology are sensing an opportunity in China. Chinese enterprises are buying everything from scrubbers for coal-fired power plants to alternative power sources such as wind turbines and methane gas from decomposing solid waste. . . . "China is at a crossroads, shifting from a focus on buildup of capacity to more environment-friendly and energy-conserving technologies," says Steven Fludder, chief executive of GE Power China. . . .

GE isn't the only foreigner helping out. Some 400 non-Chinese companies now sell pollution-control equipment in the country. . . .

One promising development occurred on Feb. 1, when the Kyoto Protocol on greenhouse gases took effect. The accord allows companies in developed countries to purchase gas emission "credits" from enterprises in developing nations. Effectively, corporations in Japan and the West buy the right to keep emitting carbon dioxide pollution. But under the terms of the protocol, the companies that sell their emission credits then have to reduce their pollution levels, the cost of which is presumably covered by the proceeds of the trade.

Such deals in essence subsidize the sale of pollution-control equipment in the developing world, where it's often cheaper to make bigger gains in emissions reduction. Three Chinese projects are benefiting from the trade in credits: a wind farm on the grasslands of Inner Mongolia, a power station fueled by methane released during coal mining in Shanxi Province, and a power-generation project using methane produced by solid waste in Anding, south of Beijing. "This is the beginning of a market that has vast potential," says Andres Liebenthal, head of environment and social development for China at the World Bank's Beijing office. Clean air is a commodity China desperately needs.

Questions For Review

Checking for Understanding

1. Why is China cleaning up Beijing before the Olympics?

2. Why is environmental enforcement by China's local officials ineffective?

3. Why is coal the preferred source of energy in China?

Critical Thinking

4. Determining Cause and Effect Suppose a U.S. company bought emissions credits from a Chinese company. How would this exchange affect both companies? How might it affect emissions worldwide?

5. Identifying Alternatives What actions could China's leadership take to improve pollution control across the country?

Reading 15

Excerpted from Business Week, *February 28, 2005*

What Price Pollution?

Laura Cohn

There are stock trades and bond trades—and now there are smog trades. The Kyoto Protocol has become a reality in Europe, and so has a new market in pollution credits. It's designed to allow European companies gradually and efficiently to reduce the amount of greenhouse gases they pump into the atmosphere by burning fossil fuels. Banks and exchanges are gearing up to service some 12,000 industrial installations across the 25 nations of the European Union under the program.

Trading worldwide will eventually amount to billions of dollars a year—and millions in fees for the financiers who handle the trades. "A whole new business is emerging," says Peter Koster, chief executive of a new specialist bourse, the European Climate Exchange in Amsterdam. "The industrial sector can't have an attitude of wait-and-see toward this."

That's because the clock is already ticking. Kyoto formally went into effect on Feb. 16, and countries and companies are now counting back from March, 2006, when energy-intensive industries and public utilities in the EU must report their emissions from the previous year to their governments in order to get the right to emit CO2 the following year. This is part of the Emissions Trading Scheme set up by the EU to help member states comply with Kyoto. Here's how it works:

By the end of the first quarter, the EU will have assigned blocs of allowable carbon dioxide emissions to its member states, which have divvied them up among local industrial installations such as power plants and paper mills that have been entered into a "registry." Britain, for instance, was awarded an allowance of 736 million tons of carbon dioxide emissions, which it has distributed to over 1,200 plants across the country. Companies will be assigned a number of allowances based on their current emissions and targeted reductions. If a company or plant is able to emit less than the amount it has been allocated, it can sell the extra allowances in the new emissions markets. If a plant emits more than its allotment, doesn't meet standards, and wants to avoid fines for noncompliance, it will buy credits.

After a three-year grace period, the total number of credits handed out by the EU is expected to be reduced each year until 2012, when, under Kyoto, emissions must be cut to 8% below the level of 1990. Although initially limited only to EU members, the goal is to allow companies to trade credits worldwide. Indeed, there is already a Chicago Climate Exchange, although EU allowances can't be traded there. The companies that trade on the Chicago exchange do so on a voluntary basis because the Bush Administration has declined to sign the Kyoto treaty. . . .

Meanwhile, European companies are already starting to hedge their carbon risk, trading credits on the over-the-counter market. . . . The going price of a carbon allowance, which is equivalent to 1 ton of carbon dioxide, on Feb. 16: $9.92. A bevy of exchanges are jockeying to specialize in emissions trading, including the European Climate Exchange, whose futures and options will trade in London, Germany's European Energy Exchange, and France's Powernext. All expect to have their markets up and running by the end of March, offering companies the ability to hedge carbon emissions.

Over the next three years, depending on the price of carbon and the stringency of the scheme, businesses will spend $2 billion to $3 billion to comply with the program, according to Ilex Energy Consulting of Oxford, either to purchase credits or install equipment to slash emissions. While the first forward

trade took place in 2003, the average transaction is still on the small side: about $1.8 million, according to traders. . . . Once the futures and options get going, the combined market could grow to $58 billion in Europe alone. . . .

One of the most active players in the forward market so far has been Royal Dutch/Shell Group—which in the past two years has made much of its commitment to a cleaner environment. The energy behemoth, which has 46 installations covered under the EU plan, says emissions trading will help with its investment in pollution control. "It tells us whether it's more efficient [right now] for us to invest in new technologies, practices, or fuels," says Garth Edward, Shell's trading manager for environmental products, "or whether it's more efficient for us to buy or sell allowances in the external marketplace."

To meet the demand for carbon expertise from Shell and other big market participants, . . . financial institutions across Europe are starting to set up teams of carbon gurus. . . .

. . . [T]he center for emissions trading in Europe is expected to be London. The European Climate Exchange, whose executives are based in Amsterdam, is using London's International Petroleum Exchange as its platform. In addition, Climate Change Capital, a specialist merchant banking group dedicated to climate-change markets, has sprung up in London's West End to help polluters cope with Kyoto. Like the traders at the banks, executives at Climate Change Capital say demand for carbon advice is on the rise, even though much of Europe Inc. is still waiting to hear what the exact emissions allowances will be. "In a market where a lot of information isn't ready, there has been a lot of activity," says John Metzler, a director of the group's financial products team.

Despite signs of a thriving market, some key issues have yet to be worked out. The EU hasn't ruled, for example, on whether industries such as aviation will eventually be drawn into the emissions trading scheme. Such question marks aside, executives at many European companies are already starting to view carbon emissions as a market-driven variable that's in the same league as raw materials or interest rates. The cost of attacking global warming has never been less cloudy.

Questions For Review

Checking for Understanding

1. Under the EU emissions-control program, what happens if a company emits more than its allotment of CO2?

2. After the grace period, how will the EU program meet Kyoto's target 8% reduction in emissions?

3. What key industry is not yet bound by the EU emissions program?

Critical Thinking

4. **Analyzing Information** Why are European companies starting to view carbon emissions as a "market-driven variable"? What does this mean?

5. **Making Predictions** Do you think the emissions system under Kyoto will succeed in reducing emissions? Explain.

READING 16

Excerpted from Business Week, *August 14, 2006*

Wall Street's New Love Affair

Emily Thornton and Adam Aston, with Justin Hibbard

You sense it from the waiting lists for Toyota Priuses. You see it on the faces of the solar-energy stalwarts who are suddenly being showered with attention. . . . Warnings about global warming grow more dire by the day: Experts say Manhattan, Washington, and San Francisco will eventually be under water unless people start filling their tanks with corn squeezings and bolting solar panels to their roofs.

As troubling as the predictions are, even more urgent problems are weighing on the American psyche these days—namely the price of oil, which is surging past $75 a barrel, and the deteriorating Middle East situation. In liberal and conservative circles alike, energy independence is becoming a national imperative, and renewable energy is attracting an unprecedented array of groups. "We're seeing an alignment of the environmental interests, automakers, the agricultural industry, the security and energy-independence proponents, even the evangelicals," says billionaire venture capitalist L. John Doerr. "When did all those [interests] come together before?"

You know a cultural movement is real when the money men get on board. In just the past year a broad swath of financiers—venture capitalists, hedge funds, investment banks, public pension funds, and even stodgy insurers—have begun sinking billions of dollars into producers of ethanol, fuel cell superbatteries, microscopic bugs that turn glucose into plastic, environmentally friendly pesticides, anything that might tap into the green craze. Saving the planet, protecting America, doing God's work, cynically exploiting a feel-good trend—call it what you will. Wall Street sees money to be made. . . .

Make no mistake: The U.S. is not about to resemble an eco-utopia anytime soon. . . . The government has provided billions in subsidies over the decades for ethanol, wind, and solar technologies to help make them more economically competitive—without much success. . . . It would take decades more and tens of trillions of dollars to produce the countless windmills, solar panels, geothermal plants, and power-generating dams needed to mothball the nation's coal- and gas-fired electric plants. And production of biofuels such as ethanol and biodiesel would need to soar from 325,000 barrels a day to nearly 16.5 million to replace conventional road fuels. . . .

Wall Street isn't banking on a radically different future, though. It's merely betting that wind, solar, biofuels, and the rest will make up some bigger portion of the nation's $1.6 trillion energy market—enough to give clean-energy investing cred[ibility] as part of a diversified portfolio. Their confidence is bolstered by the federal and state clean-energy quotas that have appeared virtually overnight. Already, 22 states have ordered utilities to obtain as much as 33% of their electricity from renewable sources within the next 10 years. Others are likely to follow. . . .

Even modest gains at the margins could add up to real money for investors. Let's look at some small slices of the energy market. Cambridge Energy, hardly a haven for green warriors, expects demand for ethanol and biodiesel for cars and trucks to more than double, to 6% of all road fuels, in the next four years—a $28.4 billion opportunity. It expects demand for power from wind, sun, geothermal heat, biomass, and water to rise from 2.5% of the nation's electricity to 3.4%. That translates to as much as $10 billion in new revenues for clean power producers by 2010.

And these are baseline assumptions over the short run. If the technologies gestating today were to make, say, plant-derived jet fuel cost-competitive, the opportunities could increase by orders of magnitude.

Wall Street is champing at the bit to provide capital. Last year, $17 billion poured into clean-energy projects in the U.S.—89% more than in 2004, estimates researcher New Energy Finance Ltd. . . . Interest in this stuff is "out of control," says Credit Suisse Group banker Paul T. Ho. . . .

But look closely at how the market is treating clean-energy stocks, and you'll see why the moneyed elite are clamoring to get in. Since late 2003, as oil prices have shot up, stocks that make up Cleantech Capital Group's Cleantech Index have jumped 67%, vs. the Standard & Poor's 500-stock index's 31%. A spate of initial public offerings by solar and ethanol companies in the U.S. have delivered returns of 31% on average since going public within the past year. . . .

Given the euphoria, it's tempting to compare green investing with the Internet boom of the 1990s. But there are important differences. By 1995, when Netscape went public, the World Wide Web already existed. In contrast, truly transformative clean-energy technologies haven't even been created yet. Think of green investing in 2006 like technology investing circa 1976, when computer hardware was just starting to be introduced. Bet on the next Intel, and the sky's the limit.

Of course, the green gains of the past few years are directly related to the price of oil, which has doubled since 2003. Oil remains the main lens through which all energy is viewed, and it takes high prices to stir demand for alternatives. . . . Certainly the big payoffs for alternative energy would vanish in a second if oil prices were to plummet suddenly.

But [Wall] Street is focusing on the vast gray area that exists between these extreme scenarios, wherein oil prices remain high enough to keep renewable energy viable and profitable. With oil at $75 a barrel, it costs half as much to produce a gallon of ethanol as a gallon of gasoline. Right now it runs about 6 cents to generate a kilowatt hour of electricity power from wind, vs. a national average of 8 cents for electricity from coal or natural gas. To bet on renewable energy is to bet that those spreads won't go away.

. . . If that upward spiral [of oil prices] starts to unwind, the whole green market could unwind with it. . . . [David] Leuschen [founder of Riverstone investment company] acknowledges this reality. "It's the umbrella of high energy prices that's allowing us to do this," he says. "If oil went back to $10, I don't think we'd be talking about renewable energy." But that's a risk Leuschen and others are suddenly willing to take.

QUESTIONS FOR REVIEW

Checking for Understanding

1. What is the main reason why green investing is gaining popularity now?
2. Why are investors willing to pour money into green technologies that have yet to be developed?
3. What would likely happen to investments in renewable energy if oil prices suddenly plummeted?

Critical Thinking

4. **Determining Cause and Effect** Suppose someone developed an affordable jet fuel made from corn. Describe some industries that would be affected and in what ways.
5. **Making Generalizations** Based on the information in the reading, what relationship do you see between risk and potential reward in investing? Explain.

Chart Activity

Study the chart and answer the following questions.

1. Which country ranks first in the world in total emissions? Which of the countries listed in the table ranks first in per capita emissions?
2. Based on the table, what generalization could you make about the countries that make up the top ten air polluters?

Research Activities

Independent Practice

Demonstrating Reasoned Judgment Research the arguments for and against the Kyoto Protocol, including the position of the current U.S. administration. Do you think the U.S. should support this agreement? Write an essay stating your position, with supporting evidence from your research.

Cooperative Learning

Synthesizing Information Organize into small groups. A television producer has asked each group to prepare a script for a show on global warming. Research the evidence and controversies about global warming. Organize the group's research and write the script. Prepare storyboards for the show, including visuals to go with the script and stage directions. Display the storyboards in the classroom.

Top Ten Air Polluters
Ranked by Total Carbon Emissions, 2003

Rank	Nation	Total Emissions (thousands of metric tons)	Per Capita Emissions (metric tons)
1	United States	1,580,175	5.43
2	China	1,131,175	0.86
3	Russian Federation	407,593	2.85
4	India	347,577	0.33
5	Japan	336,142	2.64
6	Germany	219,776	2.66
7	Canada	154,392	4.88
8	United Kingdom	152,460	2.56
9	South Korea	124,455	2.59
10	Italy	121,608	2.10

Source: Gregg Marland, Tom Boden, and Bob Andres, Oak Ridge National Laboratory

Answer Key

Focus Topic 1

READING 1

Questions for Review

1. They manufacture for other companies that put their own brand names on the products.
2. Advantages of Western companies: brand identity and loyalty, patent and trademark protections, long-standing traditions of innovation, and established distribution channels
3. Advantages of companies in rapidly developing economies: low-cost labor and materials, newer and more efficient plants and equipment, growing supply of skilled workers, high-quality yet low-cost consumer products
4. Answers will vary. Students might note that, in both cases, the big players in the market were not taking the emerging companies seriously. Like Honda and Samsung in the 1960s and 1970s, today's less-known companies from rapidly developing economies might become the big players of tomorrow.
5. Answers will vary. Students might suggest that these companies must lower costs by outsourcing or partnering with companies in developing economies, upgrade plant and equipment or build more facilities overseas, place more emphasis on education of future workers, and focus on what consumers want-high quality at reasonable prices.

READING 2

Questions for Review

1. World Bank
2. The World Bank's analysis shows that the number of people in poverty has fallen only slowly.
3. Bhalla contends that the World Bank has mixed survey data with overall national-accounts, has used what he calls an untested and unverifiable version of the Purchasing Power Parity index, and is moving toward less-reliable survey data.
4. Answers will vary. Sample summary: We can stop looking for a global-development formula that will lift the world's people out of poverty, because the current policies are accomplishing that goal.
5. Answers will vary. Students should recognize that Bhalla's ideas are likely to be controversial. They might cite reasons such as the unconventional use of statistics to support his ideas. Other economists will probably challenge his calculations and come to different conclusions. Also, the pervasive poverty in Africa seems to contradict his conclusion.

READING 3

Questions for Review

1. Environmentalists: Elitist trade and economic bodies make undemocratic decisions that undermine national sovereignty on environmental regulation. Unions: Unfettered trade allows unfair competition from countries that lack labor standards. Human-rights activists: The IMF and the World Bank prop up regimes that condone sweatshops and pursue policies that bail out foreign leaders at the expense of local economies.
2. The paradox is that globalization brings big gains at the macroeconomic level, but also pain at the personal level for the losers.
3. The theory of comparative advantage holds that free trade will prompt the U.S. to import goods made by low-wage, low-skilled labor and export those made by the highly skilled. But companies are undermining that construct by shifting even the most skilled jobs and technologies to low-wage countries.
4. Answers will vary. Students should recognize that the ability of companies to move jobs overseas if faced with union demands would erode both the negotiating power of unions and union membership. With unions having less power to win concessions from management, fewer workers would be willing to join and pay union dues.
5. Answers will vary. Students might note that protests will probably not stop globalization.

However, the protests may cause governments to modify their policies, such as by compensating those who lose jobs, passing tougher environmental laws, and improving labor standards in low-wage countries.

Chart Activity

1. Answers will vary. Students might suggest that the broader economic levels, such as global and national economies, are benefiting most, because of gains in productivity and living standards, and the stability of interest rates and inflation. They might also make a case for gains at the business level.
2. Answers will vary. Students should note that individual workers in developed countries, such as the U.S., are most likely to be the losers as globalization sends jobs to low-wage countries. However, individuals in low-wage countries might be benefiting from this trend.

Focus Topic 2

READING 4

Questions for Review

1. a backlash against free trade in general and NAFTA in particular
2. because the huge size of the U.S. economy lessened the effect
3. because strong growth in the modern global economy depends on the creative energies unleashed by the freer flow of ideas, goods, services, and people
4. Answers will vary. Sample response: Frost was pointing out that a wall is erected to keep things in or out. Before building one, people should reflect on what they are trying to keep in or out and what message the wall might send to others. In the last two lines he is saying that there is something inherently unlikable about the restrictiveness of a wall.
5. Answers will vary. Sample response: The writer is using the wall in the poem as a metaphor for trade barriers. He is saying that the concept of trade barriers is inherently flawed. Trying to protect ourselves by keeping out foreign competitors sends the wrong message to our trading partners and it doesn't benefit us in the long run.

READING 5

Questions for Review

1. Instead of coordinated, multilateral trade agreements, nations and companies would have to contend with today's cumbersome and expensive patchwork of bilateral agreements.
2. Some negotiators are putting the interests of local producers above the interests of consumers in their own markets. The reason is that local producers tend to be politically powerful, but consumers rarely have a collective voice.
3. leadership from businesses that see beyond narrow national interests
4. Answers will vary. Sample response: Each person states his/her point of view and gives supporting reasons. People who feel strongly lobby for their choice. To come to an agreement, people must compromise—some or all must give up something they want in order to reach a decision that is acceptable to everyone.
5. Answers will vary. Sample response: Special interests and money are two of the influences on Congress. Representatives often vote for bills that benefit their main contributors and powerful lobbies, sometimes to the detriment of the majority of constituents, who do not act in concert and thus have less political power. As stated in the reading, trade negotiators also feel the political pressure of interest groups, which have more political power than individual constituents (consumers) who do not speak with a collective voice.

READING 6

Questions for Review

1. Individual countries maintain regulations that make if very difficult and expensive for outside service companies to move in.
2. A service business could operate in another EU nation as long as the business complied with the regulations of its home country.
3. Most European business-lobby groups are dominated by large companies, which can more easily afford to comply with country-by-country regulations. The region's small businesses, which would have benefited the most from the directive, have little organized representation in Brussels.

4. Answers will vary. Sample response: Trade negotiators, like politicians, represent a local constituency that influences their actions. In both cases, local interests often prevent them from taking a broader view of issues, resulting in decisions that might benefit small local groups in the short run but harm these same groups in the long run.
5. All three writers advocate free trade. Examples will vary. Sample examples: Reading 4: The writer actually says "supporters of freer trade-like me" and describes trade barriers as "inimical to a robust future." Reading 5: The writer describes the possibility of failure of the Doha Round as "unthinkable" and the current bilateral agreements as "cumbersome." Reading 6: The writer refers to the passed version of the Bolkestein Directive as "watered down" and "gutted."

Graph Activity

1. European Union; ASEAN
2. NAFTA nations do the largest portion of their importing from outside their region, but the largest portion of their exports are within their region.

Focus Topic 3

READING 7

Questions for Review

1. Outsourcing is allowing any third party to take on a function in your organization. It is offshoring when the third party is in a foreign location.
2. when the company owns the business process or facility located offshore
3. multishoring
4. Answers will vary. Students should recognize that businesses offshore because there are advantages to doing so. U.S. labor tends to be more expensive than elsewhere, so the Japanese are probably not looking for cheap labor when they offshore to us. Most likely, they have plants in the U.S. in order to get around U.S. import quotas or tariffs on imported vehicles.
5. Answers will vary. Students should demonstrate an organized decision-making process. For example, they might suggest that they would examine their goals first and see if outsourcing could help meet their goals. They might then compare the costs of all options and weigh them against the benefits of keeping the function in house.

READING 8

Questions for Review

1. The writer believed the transfer of jobs overseas would gradually accelerate.
2. The issue was being obscured by other events at the time, especially headlines from Iraq and the strong economy that had created nearly 1 million jobs.
3. Example summary: Put policies in place to (1) soften the financial blow for American workers who lose their jobs due to offshoring; (2) pressure other countries to open their markets and comply with trade rules; (3) encourage education of U.S. students in science and engineering and ease visa restrictions for foreign students and talented workers.
4. The metaphor comes from the practice of taking canaries into coal mines. Canaries are more sensitive than humans to the odorless poison gas that sometimes accumulates in mine shafts. The death of the canary in the shaft is a forewarning to the miners that the gas is reaching lethal levels, giving them some time to escape. The writer of the article is using the metaphor to suggest that offshoring practices today are a warning of danger ahead for the U.S. He wants policymakers to heed this warning and take action now to soften the consequences of offshoring on American workers and the U.S. economy in the future.
5. Answers will vary. Students should relate the consequences to the writer's suggestions they summarized in question 3. For example, American workers who lose their jobs due to offshoring would lack a financial safety net and suffer financial hardship during extended job searches. Job opportunities in the U.S. might dwindle if foreign competitors do not abide by the same trade rules as U.S. firms. The talent pool available to businesses in the U.S. might also dwindle, resulting in lack of innovation and competitiveness, if policies are not put in place to encourage education

in key skills and to attract talented foreign workers. All of these problems could put a significant drag on the U.S. economy.

READING 9

Questions for Review

1. The offshoring of skilled-service jobs by American corporations; because it is a wakeup call to America and focuses attention on what spurs job creation: the formation of new markets and the meeting of new wants
2. The capacity of the West's entrepreneurial individuals and firms to create and satisfy new consumer wants
3. By investing in human capital and opening borders
4. Answers will vary. Students might note that both writers see the trend in offshoring as a wakeup call to U.S. policymakers to make some changes. Both writers recognize rising education levels in developing countries and widespread use of information technology as contributing factors in the offshoring trend, and that offshoring is causing loss of U.S. jobs. As possible solutions to the negative effects of offshoring, both writers favor more funding for education in the U.S. and the loosening of immigration laws to allow foreign talent to enter the U.S. more freely.
5. Answers will vary. The reading states that information technology is making it possible for developed nations' companies to link with developing nations' workers cheaply, which facilitates the movement of jobs overseas. Students might recognize that information technology is also making U.S. workers more productive, so fewer workers are needed. The development of information technology is changing the nature of jobs as well-placing greater emphasis on technical education and higher-order skills.

Cartoon Activity

1. "Pushing the envelope" represents a high-skilled, possibly high-tech job. "Stuffing envelopes" suggests a low-skilled, menial job.
2. The cartoonist is saying that high-skilled jobs are going overseas, leaving mostly low-skilled jobs for American workers.

FOCUS TOPIC 4

READING 10

Questions for Review

1. The writer suggests that the trade deficit is a misleading measure of economic health.
2. These sales are overlooked in the trade statistics.
3. Multinationals also locate some operations overseas to be near the local foreign markets they serve.
4. Summaries will vary. Example summary: (1) Policies should be enacted that will make the U.S. more attractive to foreigners as a location for production operations. For example, the visa process should be streamlined and trade-adjustment assistance for workers should be more widely available. (2) U.S. policymakers should press other countries to give U.S. firms fair access to foreign markets. (3) Corporate tax rules should be adjusted to attract more foreign production operations to the U.S. (4) The reporting of national trade statistics should be revised to better reflect the global activities of multinational corporations.
5. Answers will vary. Students might suggest that the foreign operations would boost the U.S. economy by creating jobs at their U.S. plants and indirectly at U.S. firms supplying the foreign facilities. U.S. consumers might also benefit from better service from the foreign companies because the companies would have local facilities. On the negative side, Americans might become concerned about the increasing amount of foreign ownership of U.S. assets.

READING 11

Questions for Review

1. They must attract foreign capital.
2. The dollar will likely decline against other currencies.
3. because the yuan is pegged to the U.S. dollar
4. A decline in the U.S. dollar makes U.S. goods and services less expensive for foreigners to buy.

5. Canada, because it had the largest positive dollar change on the U.S. Merchandise Exports side of the table.

Graph Activity

1. The U.S. trade deficit is increasing.
2. From 2001 to 2005, the trade deficit is increasing at a faster rate than in the earlier period; because the graph line is at a steeper angle in the later period.

Focus Topic 5

READING 12

Questions for Review

1. Big reserve holders are demanding larger cuts and, in some cases, restricting or denying access to the major international companies
2. The motives of national oil companies can be more political than commercial.
3. They are turning to nonconventional sources like liquefied natural gas and tar sands, and they are tackling more difficult and expensive projects.
4. Students should recognize that the oil companies must replenish their supplies by at least the total amount of product sold in order to have enough oil to meet future demand.
5. Answers will vary. Sample response: As supplies dwindle, the gap between quantity supplied and quantity demanded would grow, putting upward pressure on oil prices. Energy is the engine of economic activity. Scarcity of oil and sharply higher prices for the available oil could significantly depress economic activity. Since most companies use energy to produce and ship their products, costly energy would increase the prices of other products as well.

READING 13

Questions for Review

1. China is winning, because it has greater financial resources and an authoritarian government, which can jump at investment opportunities faster than can the slower democratic government of India.
2. India has a friendship with Russia that dates back to the Cold War, whereas Russia distrusts China. India and Russia continue to bolster their military and scientific ties.
3. China has signaled its support for the region's authoritarian leaders, who face criticism in the West and the threat of unrest at home.
4. Answers will vary. Sample response: Yes. Relationships are always an important part of doing business. U.S. foreign policy can either build trust for American businesses or diminish it, depending on how the policy affects the foreign resource holder. Since national governments control the oil reserves below their land, political relations between leaders help determine who will be granted access to the precious reserves.
5. Answers will vary. Sample response: As supplies of this critical resource dwindle, competition could intensify to the point that it erupts in wars to take resources by force. On the other hand, nations might realize that we are all in this together and we must cooperate for the good of all. If this feeling prevails, then nations might cooperate to develop alternative fuels and new technologies for using fuels more efficiently.

Graph Activity

1. Production is expected to level off and then decline.
2. Answers will vary. Students should recognize that as the reserve replacement ratio for most major companies falls below 100%, a trend shown in the bar graphs, total production will decline, as reflected in the line graph.

Focus Topic 6

READING 14

Questions for Review

1. China's leadership knows the Olympics may define the country's international image for decades.
2. Local officials would rather develop GDP than enforce environmental rules. Also, the fines they collect for noncompliance adds to local budgets.
3. Neglect of environmental concerns and safety in the mines makes coal power cheap.

4. Answers will vary. Sample response: The U.S. company would be permitted to emit more, up to the amount of credits purchased, while the Chinese company would have to cut emissions by that amount. The net effect would be to hold emissions at the current levels for the two companies taken together. However, the proceeds from the sale would help the Chinese company purchase pollution-control equipment, which would probably help reduce worldwide emissions in the long run.
5. Answers will vary. Sample response: First, China's leaders must make environmental protection a national priority. They must promote this priority publicly and allocate funds to achieve it. They could hire more enforcement staff and provide incentives not to pollute, such as higher fines for abuses and subsidies or other rewards for installing and using emissions-control equipment. The leaders must be willing to accept slower GDP growth in exchange for environmental improvements.

READING 15

Questions for Review

1. The company can either buy credits for additional emissions or pay a fine for noncompliance.
2. by reducing the total number of credits handed out each year until 2012.
3. aviation
4. Answers will vary. Sample response: Many business decisions are based on the market forces of supply and demand, including product prices. Under the credit system, units of emissions have become a "product," and its price will go up and down with supply and demand in the credits market. Companies can then decide, based on cost, whether to buy and sell credits or invest in new emissions-control technology.
5. Answers will vary. Sample response: Yes. The system puts emissions decisions on the same basis as other business decisions. Companies will limit emissions because this is a cost-effective decision. This plan is likely to be a more effective way to curb emissions than to depend on external enforcement or company goodwill.

READING 16

Questions for Review

1. soaring oil prices
2. Investors know that if they invest in a company that develops a breakthrough green technology, the financial rewards could be huge.
3. The value of the investments would probably fall steeply, and investors would lose money.
4. Answers will vary. Sample response: Prices of airline tickets would drop sharply, sparking increased growth in the airline industry. In turn, industries that serve airlines, such as plane manufacturers and parts makers, would grow. Agriculture would also see growth, as demand for corn to make jet fuels increased. The oil industry might decline as a large segment of its market switched to the alternative fuel.
5. Answers will vary. Sample response: Risk and potential reward generally have a direct relationship in investing. Greater potential rewards typically accompany riskier investments. The reading describes investments in green technologies as risky, because the technologies are not fully developed yet. In addition, if oil prices fall sharply, the bottom could drop out of green-technology stocks. However, the reading also points out that if a company succeeds in producing a breakthrough green technology, investors would reap huge rewards.

Chart Activity

1. United States; United States
2. Answers will vary. Sample response: The world's top air polluters are all highly developed or rapidly developing nations.

Glencoe Social Studies

Making a World of Difference

McGraw Hill Glencoe

The McGraw·Hill Companies

ISBN: 978-0-07-878057-8
MHID: 0-07-878057-8

90000

9 780078 780578

www.glencoe.com

P9-AQL-332